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May 11, 1999

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VIA FEDERAL EXPRESS
Connie Puchalski
U.S. EPA Region 5
77 West Jackson Blvd.
Chicago IL 60604

Re: United States of America v. City of Albion et al.

Dear Connie:

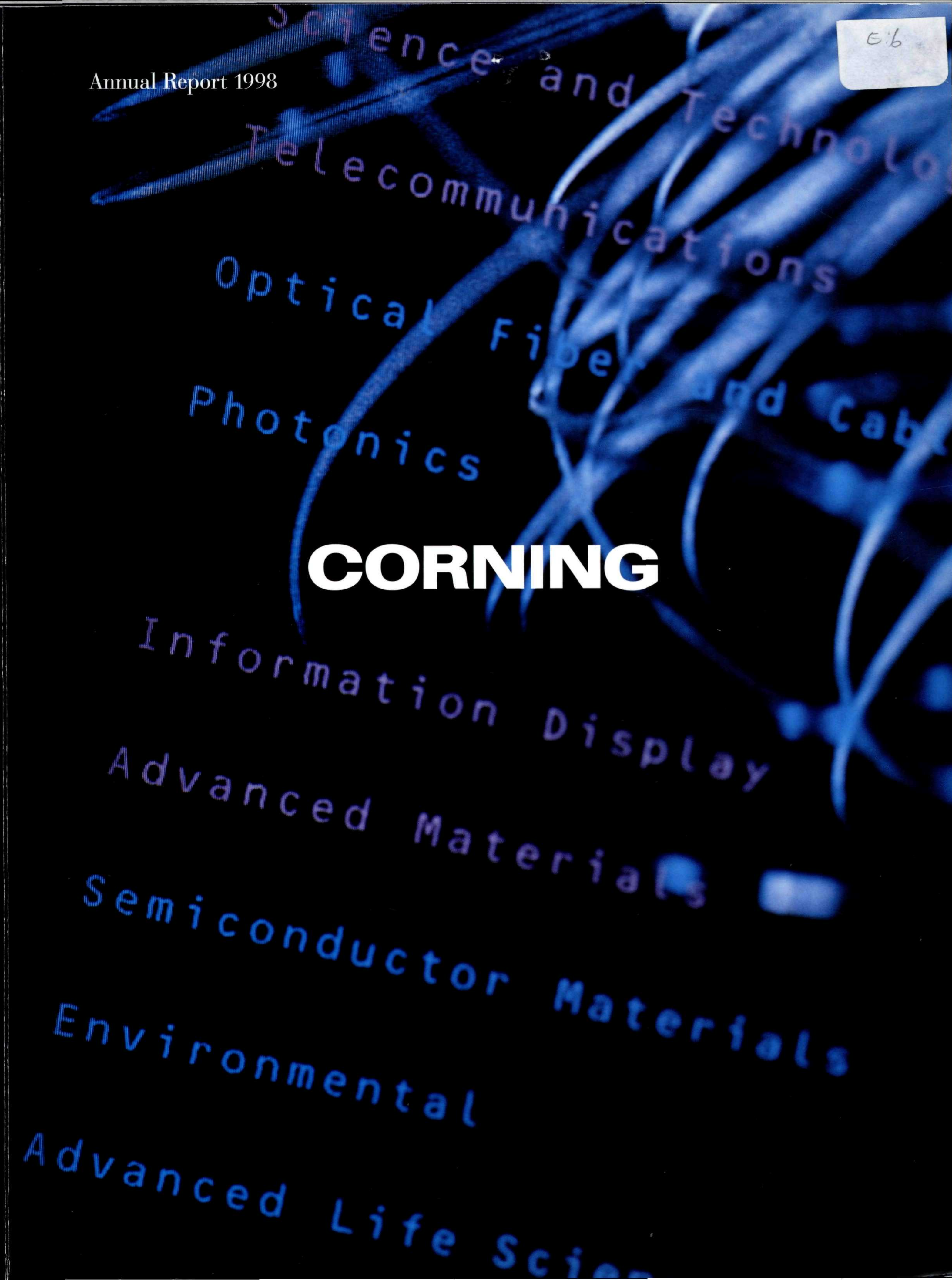
As we discussed, enclosed find the 1998 Annual Report for Corning. When I receive the Annual Report for Cooper I will forward it to your attention. Call with any questions.

Very truly yours,

Melvin G. Moseley, Jr.

MGM/dlp
Enc.
cc: Frank Biros (w/o Enc.-via regular mail)

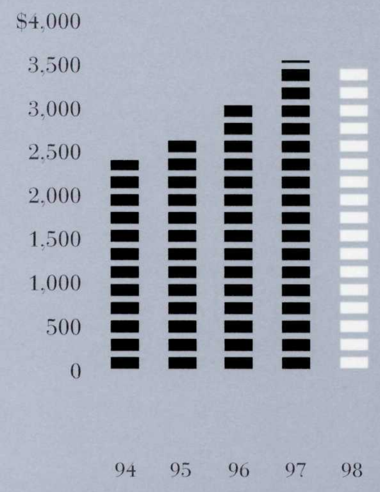
Annual Report 1998



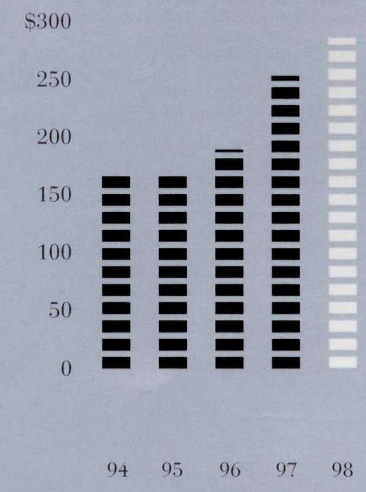
CORNING

FINANCIAL HIGHLIGHTS

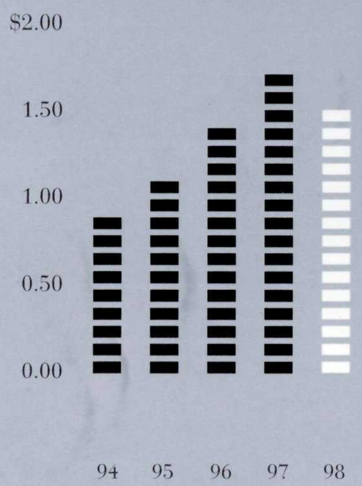
SALES



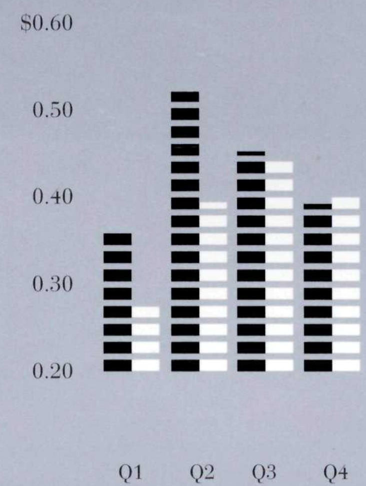
RESEARCH, DEVELOPMENT AND ENGINEERING EXPENSES



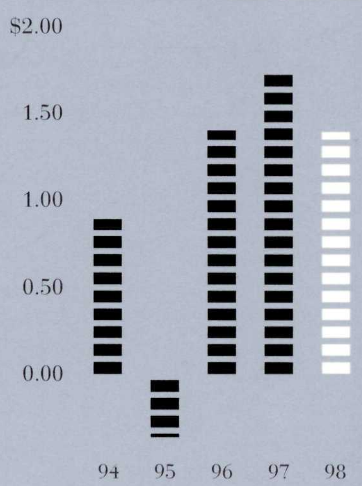
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS BEFORE SPECIAL ITEMS (1)



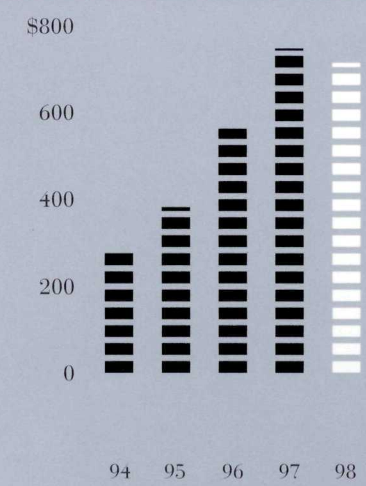
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS BEFORE SPECIAL ITEMS (2)



DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS



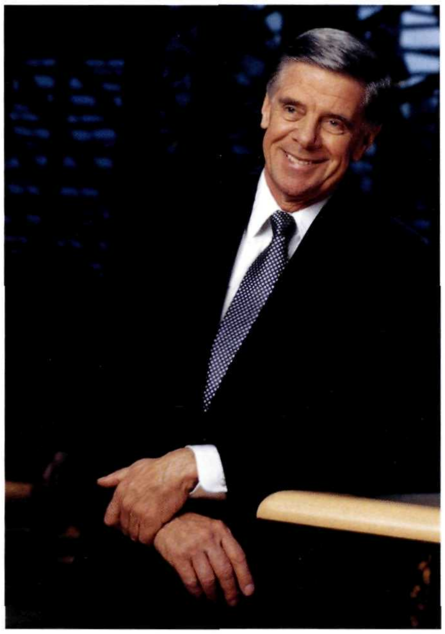
CAPITAL SPENDING



(1) Excludes the impact of equity losses from Dow Corning of $0.01 per share in 1994 and $1.54 per share in 1995, restructuring charges of $0.07 per share in 1995 and $0.21 per share in 1998, and non-operating gains totaling $0.10 per share in 1998.

(2) Excludes the impact of a restructuring charge and non-operating gain of $0.21 per share and $0.06 per share, respectively, in the second quarter and a non-operating gain of $0.04 per share in the fourth quarter.

In millions, except per share amounts



TO OUR SHAREHOLDERS:

1998 was a year marked by:

- An economic crisis in Asia that heavily impacted our earnings in the first half of the year.

- Strong cash flow, profitability, and balance sheet ratios, despite the weak first half.

- Continued growth and focusing of our research, development, and engineering efforts — that have been essentially doubled in the past three years.

- A broad scale strengthening of our competitive position, paced by new product innovations.

- A favorable conclusion to the divestiture of our consumer housewares business, essentially completing our transition to a high-technology enterprise focused on growth markets.

- A 21% increase in market value.

Few companies anywhere were able to avoid the effects of the economic crisis that swept the globe in late 1997 and 1998. Our financial performance for the year was mixed in this very challenging economic environment. Sales decreased by 1% to $3.5 billion, net income from continuing operations before special items declined by 13% to $353.8 million, and earnings per share, fully diluted, also declined by 13%.

The key drivers of this performance were significant price declines in the telecommunications segment and reduced volume in several businesses. Optical fiber pricing declined over 20%, due to severe competition as a result of reduced demand in Asia, excess industry capacity and the weakness of the yen through the first three quarters. The Asian crisis also dramatically reduced demand in the semiconductor industry, causing a serious drop for our high purity fused silica products and a reduction in demand in the Korean car market for ceramic substrates.

However, these full-year results do not adequately portray either the dynamics within the year or the momentum that we have heading into 1999. In the first half of 1998, sales were down 4% and net income decreased 25%. These declines halted in the second half, with sales up 2% and net income equal to the prior year. More importantly, operating income, which was down 44% in the first half, was up 7% in the second half.

We took significant steps to reduce costs in the face of the price declines. Selling and administrative costs were down 10% versus the prior year. In addition, we implemented an early retirement program which will help our 1999 earnings.

The good news is that our continuing investments in new product development, manufacturing effectiveness, and organizational efficiency enabled us not only to weather the storm, but also to actually pick up market share and improve profitability in certain businesses as the year went on. While we are still not happy with the overall financial results, we finished the second half even with 1997, and we are positioned to resume our growth in 1999 and beyond.

Furthermore, profitability, as measured by return on shareholders' equity, was a strong 23% despite the difficult year. Net income was also strong at 10% of sales. We continued to strengthen our balance sheet by using the proceeds from the sale of the consumer housewares business to reduce the ratio of total debt to capital from 40% to 35%, giving us the flexibility to make appropriate strategic investments.

Overall, our investments in buildings, equipment, people, and new products and processes are showing results that reinforce our confidence about the future. One cannot visit our expanded Sullivan Park Research Center without being impressed by the scale of the facilities and the scope and quality of the work that is going on. The same feeling emerges from other new or expanded facilities in New York, New Jersey, North and South Carolina, as well as overseas, where we are integrating the European operations of Optical Fibres, preparing to break ground for our new environmental products plant in China, and expanding laboratories in France and Russia.

Equally important, the products that are coming out of these investments are capturing the attention of the marketplace and delivering value that bodes well for customers and shareholders alike. In the optical fiber market, Corning's LEAF® fiber is emerging as one of the industry's unequivocal successes. Our multiyear investment in photonic technologies has also started paying a critical dividend, as profits in this high-growth business turned up significantly in the fourth quarter. Weakness in the semiconductor industry remains a concern, but it will turn around, too; as you will see later in this report, we are well along in the development of advanced materials for future growth cycles.

A BALANCED COMPANY

With the completion of our Consumer Products divestiture in the spring of 1998, Corning is a more focused high-technology company, well suited to the markets we are addressing and the synergies among our core technologies. Our enormous strength in optical and materials science related to telecommunications is only part of a balanced portfolio squarely in line with several of the most important trends of our time. The insatiable demand for bandwidth in all forms of communications, the explosive growth of the Internet, the evolving microchip, the genomics research activity, the push for a cleaner environment: these are huge, worldwide growth engines which Corning is helping to fuel.

We have also maintained our balance in another respect. While paying careful attention to short-term issues, and absorbing a fair amount of restructuring pain in the process, we have kept our eye on the long-term trends driving our strongest markets. Because we anticipated many of the cost pressures of the past year, we were able to deal with them in an orderly way, while still competing aggressively and continuing to commit to new products and technologies. Inside Corning, the talk is not only of "staying the course," but of "adding octane." A concrete example of this is the ongoing pace of new product development in fiber and photonics since our LEAF fiber announcement last February.

MARKET VALUATION

I was, obviously, as upset as anyone last summer when our stock suffered a major setback. While the doubling in value since then has been gratifying, it is clear that we still have work to do to ensure that our valuation reflects our strategic advantages. Our products are typically highly technical and hidden far from the public eye inside customers' products and processes. However, our contributions are becoming increasingly visible to end users, and I believe that a positive effect on our valuation will follow.

Another part of this year's valuation story is the prospect of a settlement in the Dow Corning litigation. As this unfortunate matter moves to a conclusion, rest assured that management will do everything we can to maximize shareholder value.

ORGANIZATION AND OUTLOOK

All told, it was a year of tightening and renewal. This always difficult process is part and parcel of our ability to create additional opportunities, and we did that too. We built up our international infrastructure to support our telecommunications and environmental businesses in China and Europe. We also launched a joint cable venture in Russia with the country's leading telecommunications cable provider, getting on the ground early in anticipation of the eventual turnaround there. In addition, we brought a new generation of leaders into key top management positions and raised the total Science and Technology headcount by more than 15% from a year earlier.

In an often trying year, people throughout the company responded with undiminished enthusiasm, teamwork, and pride in what we do and how we do it. This depth of professionalism and commitment makes the hard jobs easier, and makes the rest a privilege. I'm grateful for the opportunity to work with this superb team, as we head toward a new round of growth. I look forward to moving back into double-digit earnings per share growth territory this year.

Roger G. Ackerman

Roger G. Ackerman
Chairman and Chief Executive Officer
February 1999

CORPORATE OFFICERS

From left to right: Van C. Campbell, Vice Chairman; James B. Flaws, Senior Vice President, Treasurer and Chief Financial Officer; John W. Loose, President, Corning Communications; Charles W. Deneka, Senior Vice President, Science and Technology, and Chief Technical Officer; Roger G. Ackerman, Chairman and Chief Executive Officer; Peter Booth, Senior Vice President, Strategy and Development; Norman E. Garrity, President, Corning Technologies; William D. Eggers, Senior Vice President and General Counsel

Corning's 1998 performance demonstrated the value of balanced investments in complementary technologies and markets. With the completion of the Consumer Products divestiture, Corning has emerged as a focused, global player in several high-growth industries where our strengths in materials science and process engineering are particularly valuable. As some of these industries experienced a turbulent year, positions in others helped us ride out the volatility and prepare for the next wave of growth.

This year's Annual Report profiles the major businesses in Corning's Telecommunications, Information Display and Advanced Materials operating segments. All these businesses share important characteristics. They serve large, growing, global markets. They offer ample scope for long-term market leadership and profitability based on technological innovation. And they draw on knowledge and disciplines that have been nurtured by Corning Science and Technology, our research and development organization, to a degree that separates us from competitors and provides a broad foundation for future growth.

Corning has a long history of continually reinventing itself to seize opportunities. As the pace of new opportunities has accelerated, we have streamlined our innovation model and developed additional ways to speed cycle time, anticipate customer needs and capitalize on the synergies among our businesses. These efforts are now resulting in an unprecedented flow of new products and technologies across a wide range of platforms.

The ability to create new science and new businesses has been a hallmark of innovation management at Corning for decades. Today, nine core technologies are deployed globally to define future markets and leverage Corning's extensive intellectual property portfolio.

"The pace of the markets in which Corning participates requires an aggressive approach," says Dr. Charles "Skip" Deneka, senior vice president of Science and Technology and Corning's Chief Technical Officer. "We've taken significant steps to speed innovation and enhance our role as an entrepreneurial incubator. Our patient investments in cross-linked core technologies are key to these accomplishments. Continuing innovation that capitalizes on these links is the engine that will drive long-term opportunities for optical fiber, photonics and advanced materials."

Corning's accelerated commitment to Science and Technology is reflected in the growth of research, development and engineering spending across the corporation. More than 1200 scientists and engineers work around the globe on R&D initiatives closely linked to business strategies.

"One performance measure for Science and Technology is the ability to attract and retain the top technical talent needed to define and develop the technologies of the future," says Dr. Deneka. "Another is to deliver those technologies when the markets demand them. We work to ensure that we succeed at both."

Science and Technology

Dipak Chowdhury
Manager, Photonic Modeling and Process Engineering

Allison Arcangeli
Technician

Xiaodong Fu
Senior Development Engineer

Charles Deneka
Senior Vice President
Science and Technology
and Chief Technical Officer

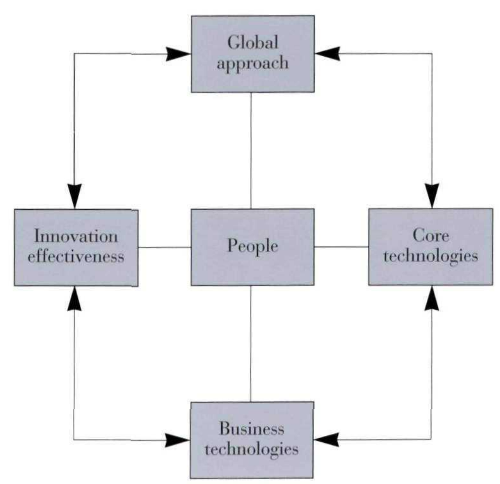
Eyerce Armstrong-Poston
Research Associate

Karl Archer
Maintenance Associate
Electrical

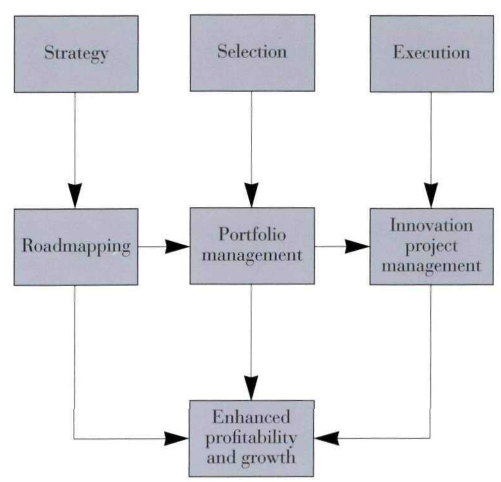
CORE TECHNOLOGIES

	Fiber	Photonics	Environmental	Information Display	Semiconductor Materials	Advanced Life Science
Cellular ceramics		●	●			●
Characterization science	●	●	●	●	●	●
Glass & glass-ceramics	●	●	●	●	●	●
Machine research	●	●		●	●	●
Optics & photonics	●	●		●	●	●
Packaging & assembly		●				
Polymers	●	●	●	●	●	●
Process modeling & measurement	●	●	●	●	●	●
Surface & interfaces	●	●	●	●	●	●

SCIENCE AND TECHNOLOGY STRATEGY



INNOVATION EFFECTIVENESS SYSTEM



No industry is more global, or more central to Corning's global ambitions, than telecommunications. As deregulation and privatization sweep away barriers to competition in country after country, the stage is set for Corning to reap growing rewards from its pioneering work in optical networking. With the volume of voice and especially data traffic rising faster than ever, the challenge to telecommunications service providers is to maximize capacity through the high-bandwidth technologies of optical fiber and photonics.

"In the three decades since Corning's original invention of low-loss optical fiber, we have improved performance tremendously," says Wendell Weeks, Corning's executive vice president for Opto-Electronics. "This past year alone, we brought out more than 10 new or enhanced fiber products, taking the technology further than anyone would have thought possible just a few years ago. It's clear that we're still just beginning to tap fiber's full potential."

Photonic technologies are capable of expanding the benefits of optical fiber by orders of magnitude. Corning's current line of photonic components and modules is among the most comprehensive in the industry and growing steadily, with more than 20 new products and technologies introduced in 1998. The strategy for the coming years is to build on these product strengths to help customers reduce costs further while building better and faster networks.

Telecommunications

Laura Hluck
Market Development
Engineering Manager

Polly Chu
Senior Development
Scientist

Robert VanDewoestine
Division Vice President and Director
Worldwide Fiber Technology

Wendell Weeks
Executive Vice President
Opto-Electronics
with members of the LEAF® fiber
development team

Curt Weinstein
Product Line Manager
Telecommunications

Yanming Liu
Market Development
Engineering Manager/
International

MARKET DRIVERS

The demand for information continues to grow. The fundamental drivers of the global demand for bandwidth are undeniable

BANDWIDTH DEMAND

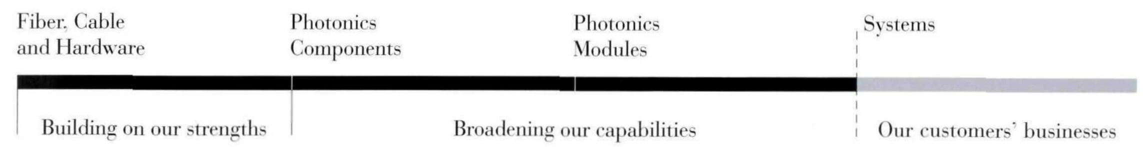
- Computing
- Connectivity
- New applications
- The Internet

GLOBAL GROWTH

- Emerging global infrastructure
- Government deregulation/privatization

STRATEGY

Fiber and cable are the foundation of the world's telecommunications infrastructure. Corning is building on its unique strengths to be the worldwide leader in optical fiber and cable, and photonic components and modules for multi-wavelength optical networking



MARKET REQUIREMENTS

COST

Low-cost networks are key to competitive success in deregulated markets

CONVENIENCE

More information carrying capacity over longer distances

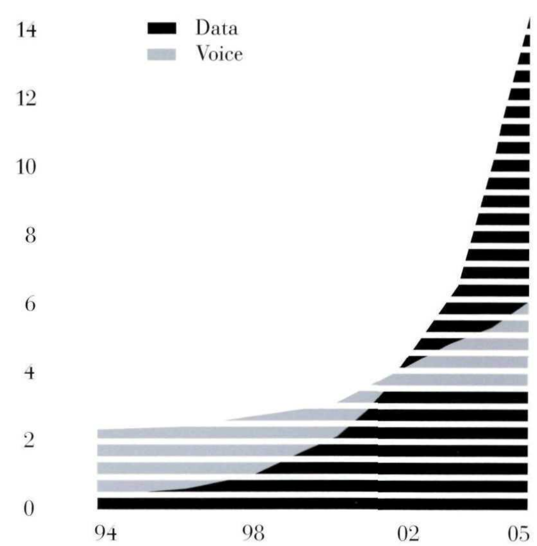
RELIABILITY

High-quality service and secure network transmission

PROJECTED MARKET GROWTH

U.S. Long Distance Traffic

Billions of gigabits per year



Corning is one of the world's largest producers of optical fiber and cable and the exclusive supplier of LEAF fiber, the most technologically advanced fiber available today. "LEAF fiber is the first of a new generation of products developed to accommodate today's explosive network growth," says Alan Eusden, vice president and general manager of Corning's Telecommunications Products Division. "Six months after LEAF fiber's introduction, we released an enhanced version made possible by our accelerated product development model. Since then, additional single- and multimode fiber products have been introduced at a rapid pace."

While the timing of fiber deployment varies, the fundamental driver of bandwidth demand is extraordinarily powerful. In advanced economies, millions of users are turning to high-bandwidth Internet and video applications. In developing countries, large populations still lack everyday phone service. Corning bridges these two constituencies as low-cost producer and leading-edge technology developer. Siecor, an equity venture of Siemens and Corning, incorporates Corning technology into cable and network hardware used in many of these markets. Corning has also strengthened its international operations by acquiring 100% of Optical Fibres' Europe-based resources.

Teresa Hawtof
Market Manager

Donna Taylor
Manager
International Applications Engineering

Danny Henderson
Project Manager

Alan Eusden
Vice President and General Manager
Telecommunications Products

Lawrence McRae
Division Vice President
Global Development

Joseph Hicks
President and Chief Executive Officer
Siecor

Sanford Lyons
Executive Vice President
Operations
Siecor

Optical Fiber and Cable

INNOVATION TIMELINE – OPTICAL FIBER

1970
Invention of first low-loss optical fiber

1976
50/125 micron multimode fiber introduced

1983
Introduction of SMF-21™ single-mode fiber

MCI selects Corning single-mode fiber for first major U.S. installation

1985
SMF/DS™ dispersion-shifted fiber introduced

1986
SMF-28™ single-mode fiber and 62.5/125 micron multimode fiber introduced

1987
CPC3 fiber-coating introduced

1990
Titan® optical fiber launched

1992
± 1.0 micron clad outer diameter; ≥ 2.0 meter radius of curvature curl specification; and 245 micron ± 10 coating outer diameter announced

1994
Single-mode fiber Polarization Mode Dispersion (PMD) specification announced

SMF-LS™ non-zero dispersion-shifted fiber introduced

1995
Corning TPD wins Malcolm Baldrige National Quality Award

CPC6 fiber coating introduced

1997
Established new industry standard for single-mode fiber core/clad concentricity of ≤ 0.6 microns

1998
Corning sets new industry standard for single-mode fiber core/clad concentricity of ≤ 0.5 microns

Single-mode fiber mode field diameter improvement of 9.20 ± 0.4 microns announced

LEAF® non-zero dispersion-shifted fiber introduced

InfiniCor™ 300 and InfiniCor™ 600 multimode fiber introduced

New outer diameter specifications for fiber coating of 245 ± 5 microns announced

1998
Submarine LEAF® fiber introduced

New single-mode fiber curl specification of ≥ 4.0 meter radius of curvature announced

SMF-28™ fiber with Duraclad™ introduced

Announced 100 turn bend specification over a 50 mm mandrel, with ≤ 0.05 dB and ≤ 0.10 dB attenuation increase at 1310 and 1550 nanometer wavelengths, respectively

OPTICAL FIBER AND CABLE AT A GLANCE

OPTICAL FIBER

One of the world's largest fiber suppliers

Low-cost fiber producer

Most technologically advanced fiber: LEAF

CABLE

Siecor: world's largest manufacturer of optical fiber cables

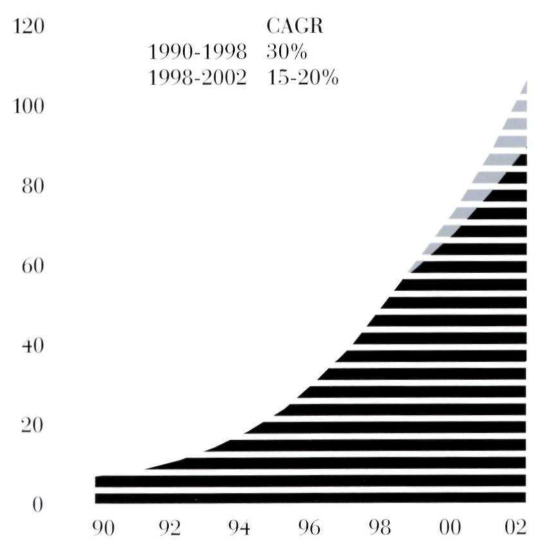
Connectors, optical hardware and network interface devices

Manufacturing facilities in the U.S., Canada, Mexico, Puerto Rico and the Dominican Republic

PROJECTED MARKET GROWTH

Optical Fiber Market Growth

Millions of kilometers



Corning's Photonic Technologies Division provides breakthrough products that maximize the capacity, performance and reliability of optical networks. "Optical networking is evolving rapidly, and Corning is driving it forward," says Gerald Fine, vice president and general manager of the division. "As market forces and lower costs drive the conversion to photonics, Corning innovations are enabling huge increases in network speed and capacity."

Corning makes a wide range of specialized photonic products at the module and component levels. These products include amplifiers, dispersion compensation and wavelength add-drop modules, and components including MultiClad™ couplers, fiber Bragg gratings, thin-film filters and other micro-optic devices that enable the use of dense wavelength division multiplexing (DWDM) technology to maximize capacity and minimize operating costs.

Corning's worldwide research and development investment is paying off in state-of-the-art products and business partnerships with leading network providers. Advanced production facilities and rigorous process controls are the other elements in Corning's increasing success in turning this high-growth opportunity into a volume manufacturing business.

Paul Jakobson
PME-Assemblies

Penelope Zonneville
Engineering Leader

Felton Flood
Senior Scientist
Optics

Sharon Zhao
Marketing Analyst

Laura Childs
Quality Assurance
Technician

Gerald Fine
Vice President and General Manager
Photonic Technologies

INNOVATION TIMELINE – PHOTONICS

1990
First prototype FiberGain® Modules introduced

1993
MultiClad™ Ultra-High Reliability Couplers introduced

1995
8λ x 2.5 Gh/s EDFA FiberGain® Modules introduced

1996
8λ x 10 Gh/s Erbium Doped Fiber Amplifier (EDFA) FiberGain® Modules introduced

DCM® Modules introduced

1997
16λ x 2.5 & 10 Gh/s FiberGain® Modules introduced

Acquisition of Corning OCA MicroPlasma® WDM filter technology

1998
LaserLife™ Getters introduced

Fiber Bragg gratings introduced 32+λ

Broadband WDM FiberGain® Modules introduced

1998
32+λα FiberGain® Modules introduced

Undersea Gratings introduced

DCM® Shorties™ Modules introduced

Variable optical attenuators introduced

Rack-mount 8 channel DWDM introduced

MultiClad 1x8 couplers *introduced*

Photonics

PHOTONICS AT A GLANCE

One of the world's largest suppliers of passive components and modules for optical networks

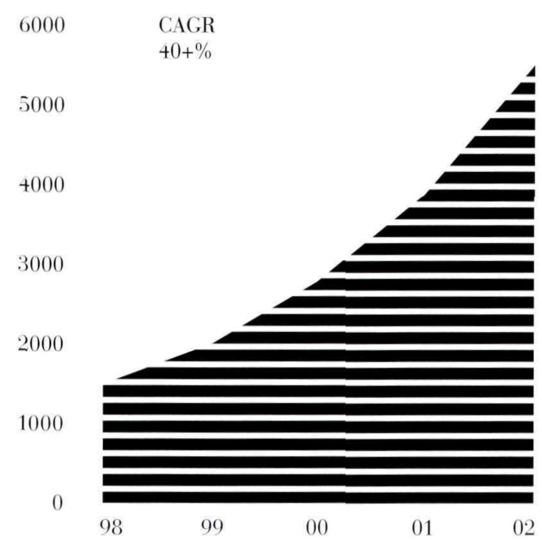
Four product development facilities, two manufacturing locations, global sales and marketing

Key supplier to leading telecommunications systems companies

World-class capabilities in
- materials science
- optical systems modeling
- optics

PROJECTED MARKET GROWTH

Photonics Market Growth
Millions of dollars



Corning's Information Display portfolio centers on the production of the ultra-thin glass used in liquid crystal displays — a market doubling every two years. Laptop and desktop computers, digital cameras, personal digital assistants and automotive displays are all contributing to this explosive growth. "The challenge for Corning is to turn its technical and market leadership into sustained profitability," says Peter Volanakis, executive vice president for Display Products and Science Products. "The way to do this is to keep driving down costs through higher yields and productivity while meeting ever-increasing technical demands. Corning's expertise in fusion glass and our portfolio of patented specialty glasses enable us to meet customer requirements for increasingly faster, higher-resolution, larger and less expensive LCDs."

In the projection display market, the challenge is to build on Corning's technological leadership to meet emerging requirements in digital/high-definition systems for entertainment and commercial use.

In Corning's traditional, more mature television glass businesses, careful attention to product life cycles and selective investment management are key factors for financial success and long-term strategic positioning.

Information Display

Satoshi Furuyama
President
Corning Japan K.K.

Mark Mitchell
Manufacturing and
Engineering Manager

Kiyomi Tsunogae
Development Engineer

Peter Volanakis
Executive Vice President
Display Products and
Science Products

Robert Yard
Director of Worldwide Marketing

David Wang
Manager
International Business

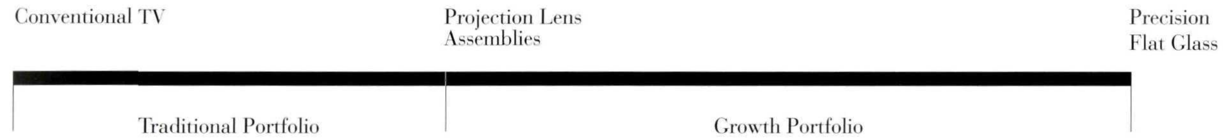
MARKET DRIVERS

Advances in liquid crystal display technology, coupled with rapidly declining prices, have enabled new applications and rapidly growing markets for LCDs

ENTERTAINMENT AND COMPUTING	NEW DISPLAY APPLICATIONS
Portable computing	Cameras
Digital platform	On-board navigation systems
Internet access	Kiosks
Affordability	Portable devices

STRATEGY

Capitalize on the rapid growth of the LCD market and steady growth of the projection market, while maximizing cash from our position in the maturing TV glass market



MARKET REQUIREMENTS

Low cost

High resolution

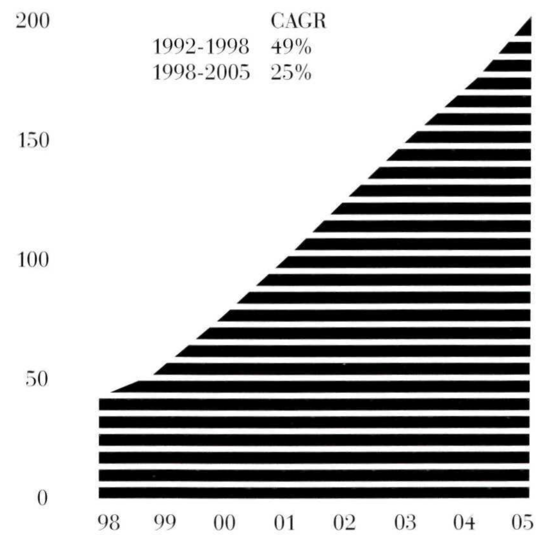
Large size

Ultra-light, ultra-thin

PROJECTED MARKET GROWTH

LCD Flat Panel Glass Market Growth

Millions of square feet



Corning's Advanced Materials businesses trace their origins to core competencies and technologies that have fueled the company's growth for generations. They are also at the cutting edge of global trends that complement developments in telecommunications and information display. "Our semiconductor materials, environmental and advanced lighting businesses all draw on a common core of Corning expertise in optics, ceramics and glass chemistry," observes Norm Garrity, president of Corning Technologies. "They also play into the worldwide drive for miniaturization and automation, where Corning's mastery of manufacturing process engineering adds critical value."

Business units in the Advanced Materials segment are depicted in the chart on the facing page. They are all characterized by close customer relationships in which custom technology development and awareness of geographic market requirements play important roles. "To be a leading global supplier, you have to respond quickly and flexibly in a variety of circumstances," says Robert Ecklin, executive vice president, Environmental and Corporate Marketing. "We're working around the world with organizations that demand the highest reliability not only in technology, but in the vendors they deal with. And they can count on Corning."

Advanced Materials

Deb Samelson
Plant Manager
Greenville, OH

James Steiner
Business Manager
Specialty Lighting
and Materials

Linda Gaskill
Business Technology Manager
Science Products

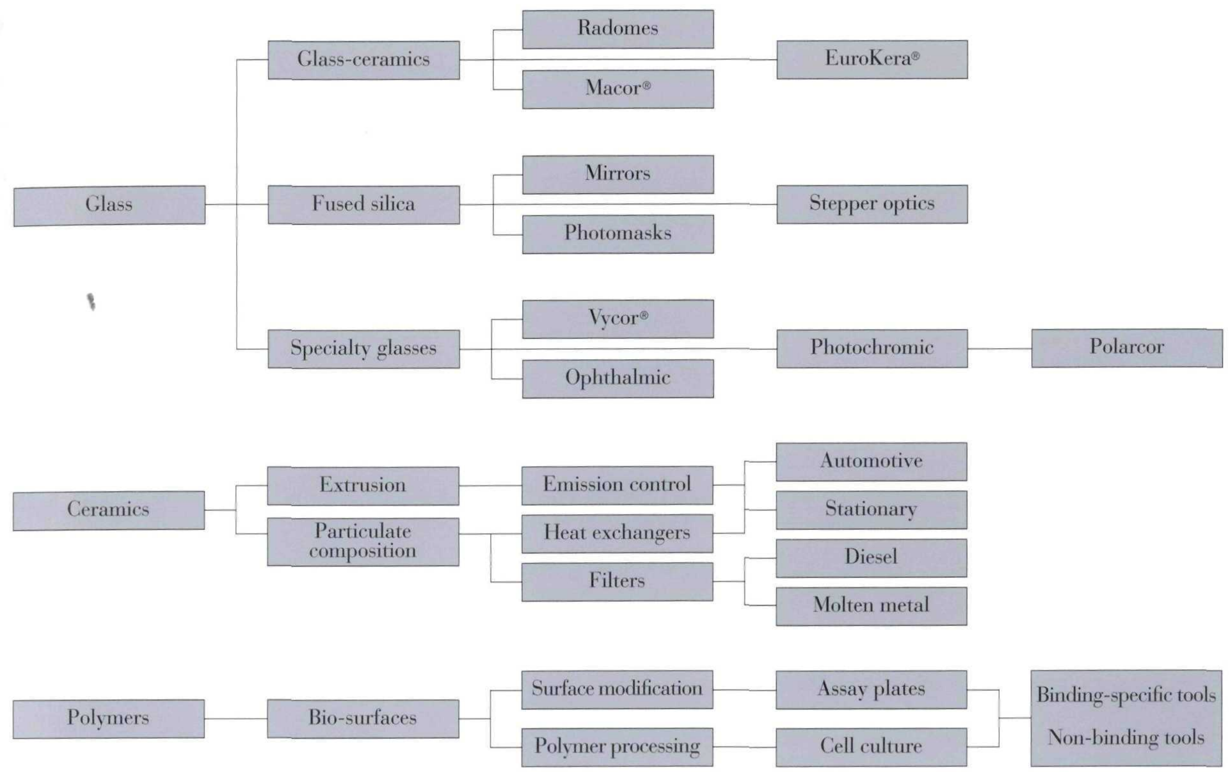
Leane Sinicki
Plant Manager
Oneonta, NY

William Plerhoples
Division Vice President
Manufacturing Technology
and Engineering

Philippe Delloye
President
Corning Europe

Robert Ecklin
Executive Vice President
Environmental and
Corporate Marketing

CORE COMPETENCIES IN MATERIALS



ADVANCED MATERIALS AT A GLANCE

BUSINESSES	MARKETS	PRODUCTS
Environmental Products	Vehicle emissions control	Ceramic substrates
		Diesel particulate filters
	Stationary emissions control	Regenerative thermal oxidizers (heat exchangers)
		Catalyzed substrates for NOx reduction in power plants
Eurokera	Smoothtop stoves	Pyroceram sheet glass
Materials Technologies	Semiconductor manufacturing	High purity fused silica
	Automotive lighting	Tubing and sealed-beam lenses and reflectors
	Commercial and residential lighting	Tubing and PAR (Parabolic Aluminized Reflector) lenses and reflectors
	Optical isolators for lasers (telecommunications)	Polarcor
	Astronomical equipment	Telescope mirrors
Optical Products	Eyeglasses	Lens blanks
Science Products	Scientific laboratories	Glass labware
		Laboratory equipment
		Plastic labware
	Pharmaceutical research	Advanced plastics for cell biology
U.S. Precision Lens	Projection TV	Plastic/glass lens systems

Industry competition and end-user demand are driving semiconductor makers to ever-finer circuitry in pursuit of higher processing speeds. Critical to the manufacture of today's densely packed computer chips are the high-power lens assemblies used in laser microlithography "stepper" systems. "The choice of lithography increasingly looms as one of the biggest technology decisions semiconductor makers face," says Randall Price, executive vice president, Advanced Materials. "Corning's high purity fused silica, with its extraordinary optical clarity, has emerged as the preferred material for current and emerging generations of steppers worldwide."

With purity in the parts-per-billion range, Corning HPFS® is ideally suited to the task of pushing the limits on circuit size and complexity. And Corning is extending its leadership in materials and metrology on several fronts. Materials now in development will enable future argon fluoride laser systems to print lines 1/800th the diameter of a human hair. Meanwhile, research into photomask technologies has yielded products now in beta test with implications for the next 15 years of lithography generations. While the semiconductor industry retrenched dramatically in 1998, demand for faster, more powerful electronics will inevitably fuel long-term growth.

Semiconductor Materials

Jocelyn Bayliss
Process Engineer

Laura Philips
Manager
Materials Technologies
Development

Randall Price
Executive Vice President
Advanced Materials

Raymond Leinen
Division Vice President
Semiconductor Materials

Charlene Smith
Research Associate

Gitimoy Kar
Business Technology
Director
Advanced Materials
Development

MARKET DRIVERS

Explosive worldwide demand for faster, more powerful computer chips is driving the continual advancement of semiconductor manufacturing technology

COMPUTING POWER

Faster processors

More memory

SEMICONDUCTOR TECHNOLOGY

Narrower lines and smaller features on computer chips

STRATEGY

Develop and manufacture materials to enable future generations of semiconductor technology

DEEP ULTRAVIOLET TECHNOLOGIES

Krypton Fluoride Laser

Argon Fluoride Laser

BEYOND DEEP UV

Extreme Ultraviolet, Scalpel, X-ray and E-beam, other

Today — 2000 — 2005 — 2010

Continued growth in stepper optics

Explore new markets leveraging manufacturing base & technology expertise

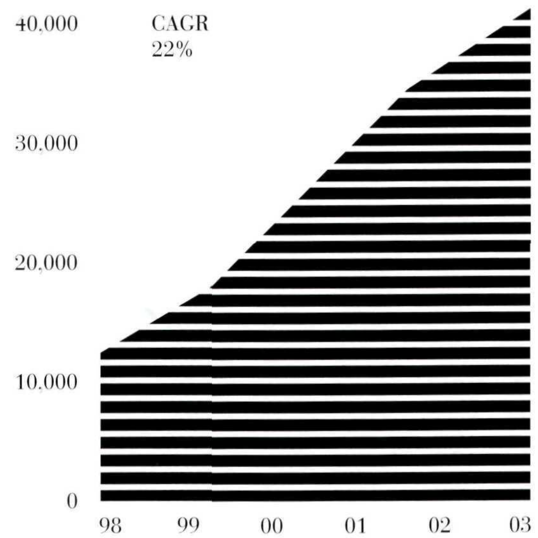
MARKET REQUIREMENTS

Manufacturing process for faster chips requires change from I-line stepper cameras using visible light to a new krypton fluoride laser using ultra-violet light

This technology shift works only with high purity fused silica optics

PROJECTED MARKET GROWTH

Deep Ultraviolet Lithography
Number of lens elements



"Every automotive company in the world relies on Corning cellular ceramic technology to meet the increasing demand for cleaner vehicles," reports Adriane Brown, vice president and general manager of Corning's Environmental Products Division. Corning technology has been incorporated into the catalytic converters of more than 300 million vehicles since the 1970s and is protected by more than 200 patents worldwide. A new generation of products offering higher cell densities will enable vehicle manufacturers to meet the increasingly stringent standards projected for the United States and western Europe through the year 2005. In addition, a new Corning facility in China will provide engineering, manufacturing and customer support for Asian markets where emission controls are being implemented for the first time.

Corning is applying similar ceramic technology in other areas. State-of-the-art Corning solutions for the control of nitrous oxide and particulate emissions are already proving their value in power plants and other stationary sources. And ceramic monoliths are showing great promise as a means of delivering increased yields and process enhancements to the petrochemical industry.

Environmental

Christine Nagel
Plant Manager
Erwin, NY

Lina Echeverria
Manager
Glass and Glass
Ceramic Research

Thomas Appelt
Business Manager

Adriane Brown
Vice President and General Manager
Environmental Products

Pronob Bardhan
Core Technology Director
Cellular Ceramics

Market Drivers

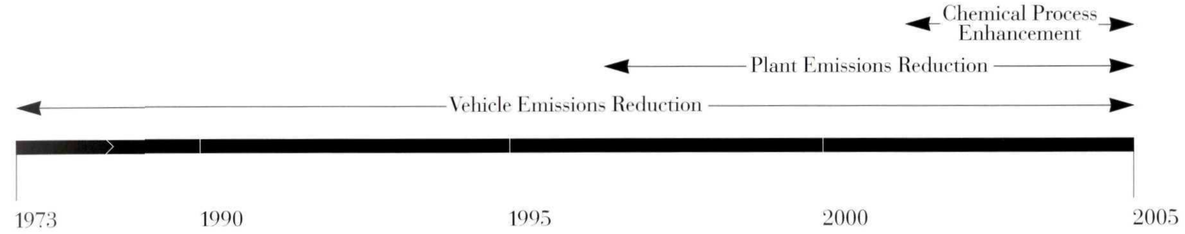
Continued tightening of clean-air policies and emissions regulations in United States, Europe and Japan

Adoption and enforcement of first-time emissions regulations in the rest of the world

Automotive industry recognition of growing consumer demand for low-emission vehicles

Strategy

Provide advanced material and component solutions to help reduce air pollution and improve chemical processes



Market Requirements

Cost efficiency

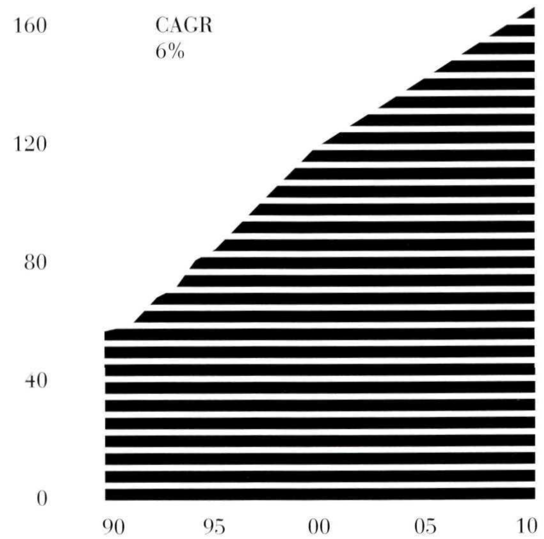
Space efficiency and weight savings

Thermal and mechanical durability

Solutions to meet new/tighter legislation

Projected Market Growth

Worldwide Substrate Market Growth
Millions of substrates



Corning has been making laboratory vessels since 1915, and plastic products for cell biology since 1974. Today's revolution in life science research is creating new opportunities for drug discovery and testing technologies that also draw on Corning strengths. As pharmaceutical companies compete to develop and market increasingly sophisticated compounds, they are turning to a new generation of laboratory tools to enhance research productivity, reduce costs and speed time to market.

"Corning has traditionally had great expertise in complex polymers, surface chemistry, engineering and optics," says Pierce Baker, senior vice president, Science Products. "That expertise is now being coupled with extensive capabilities in molecular biology and high-volume manufacturing to produce a growing range of tools for genomics, combinatorial chemistry and high-throughput screening." Today Corning is a leading maker of advanced microplates to support the high-speed automated testing of potential drug candidates. An extensive stream of new products targets additional DNA analysis and drug discovery markets expected to total $2-3 billion by 2005.

Advanced Life Science

Steven McGary
Information Technology Leader

Dana Bookbinder
Research Associate
Polymer Core Technologies

Cony D'Cruz
Market Manager
Assay

Pierce Baker
Senior Vice President
Science Products

David Root
Vice President, Research
Science Products

Lisa Vorst
Financial Manager

MARKET DRIVERS

SPEED AND PRODUCTIVITY OF RESEARCH

New drugs are necessary for growth
Large premium for innovation
Significant penalties for delay
Robust product pipelines

STRATEGY

Provide tools to enable the next generation of pharmaceutical research analysis, including genomics, combinatorial chemistry and high-throughput screening by utilizing Corning's core competencies in material and surface science, optics, molecular biology and engineering

Miniaturization

Microplates → Advanced array products

High-speed automation

MARKET REQUIREMENTS

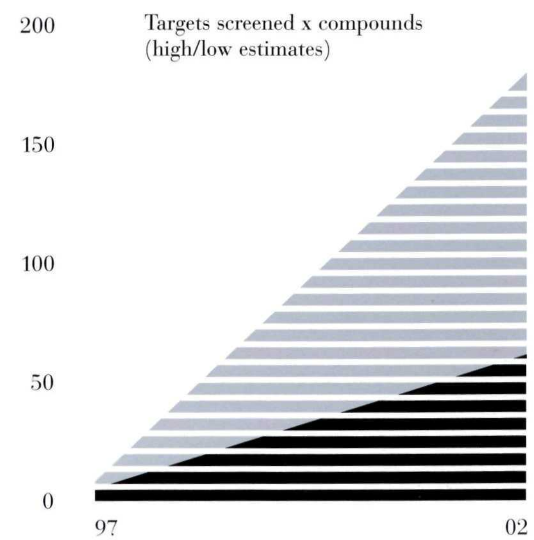
High-speed analysis of DNA and its function

Rational, efficient approach to synthesizing large numbers of potential drug candidates

Fast, automated techniques for simultaneous testing of drug candidates

PROJECTED MARKET GROWTH

Impact of High-Throughput Screening
Millions of assays per company per year

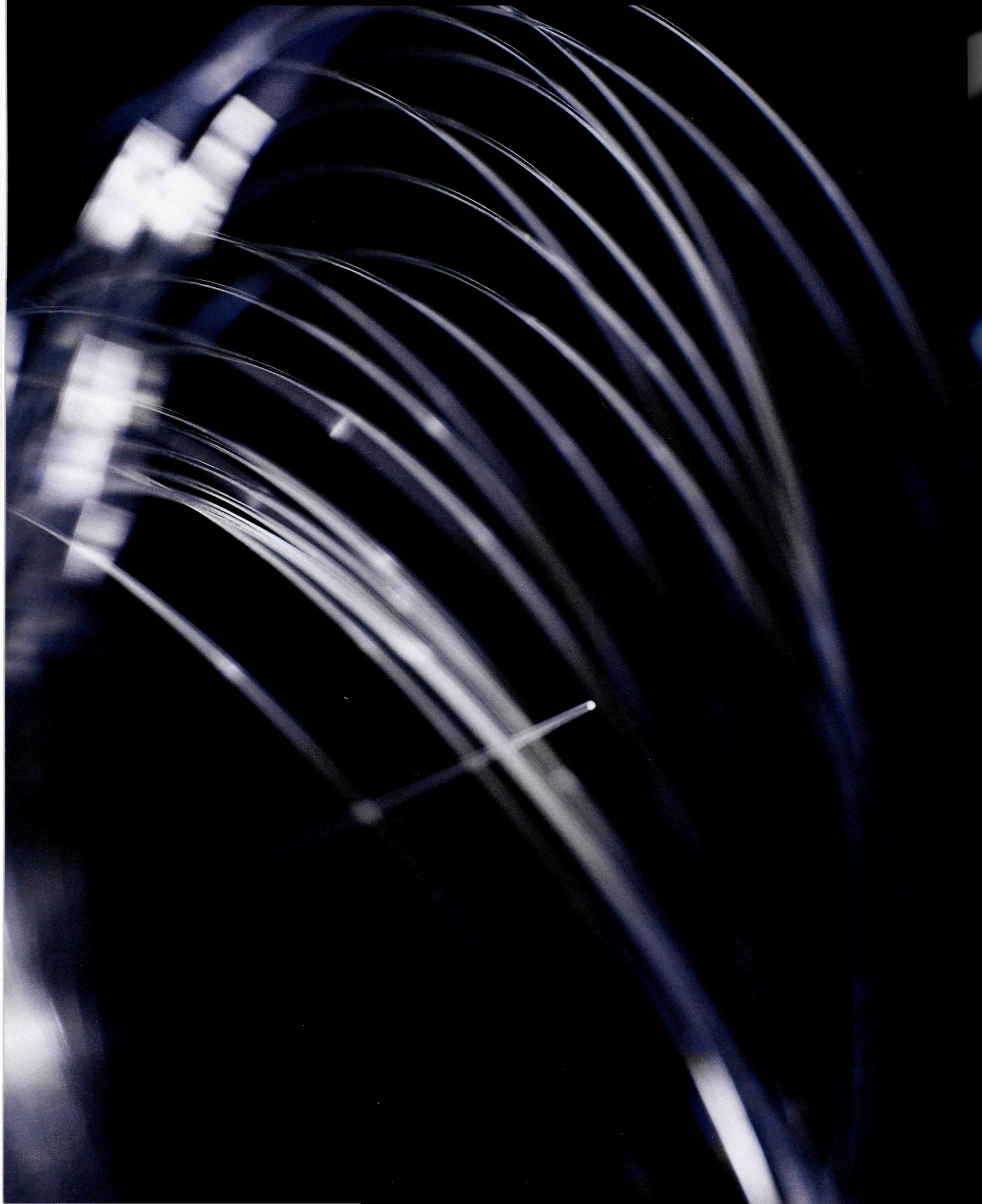


Products and Markets

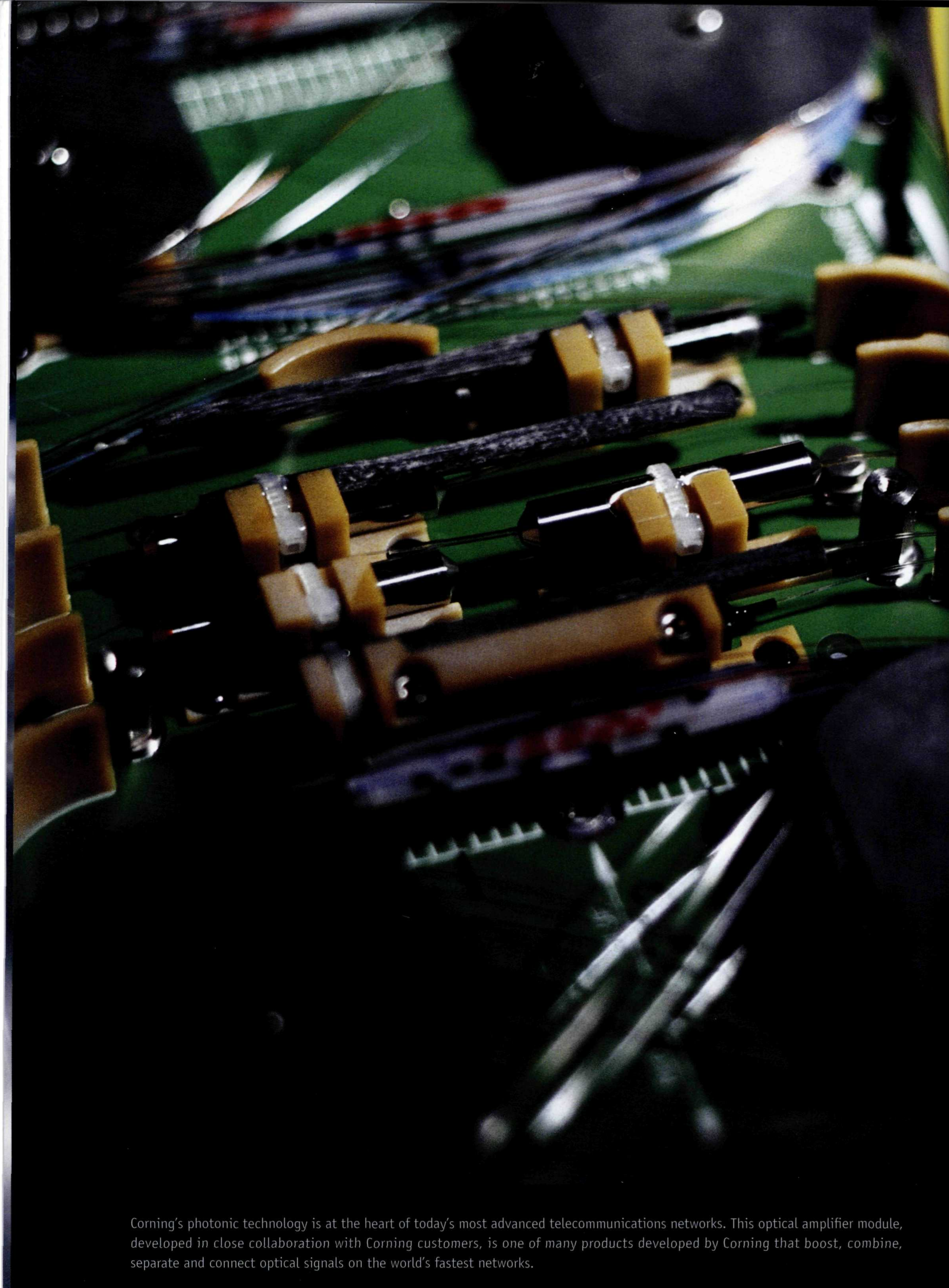
Scientific leadership and an unrelenting focus on customer needs have brought Corning into the top tier of global companies providing enabling technologies to the telecommunications, information display and advanced materials markets. In each of the industries we serve, Corning customers include international leaders and technological pioneers who depend on our ability to deliver superior solutions reliably and economically.

Yet while Corning products often have mission-critical value to customers, they are usually invisible beyond the confines of those customer relationships. The following pages offer photographic evidence of the critical role our technologies play in these high-growth global markets.

Intense competition among telecommunications service providers has accelerated the demand for the performance benefits of optical networking. As one of the world's largest producers of optical fiber and cable, Corning has led the industry in the development of advanced fiber technologies and sophisticated high-volume manufacturing processes. Corning's LEAF® optical fiber, introduced in February 1998 and already in its second generation, has emerged as the fiber of choice for 10-gigabit-per-second applications.



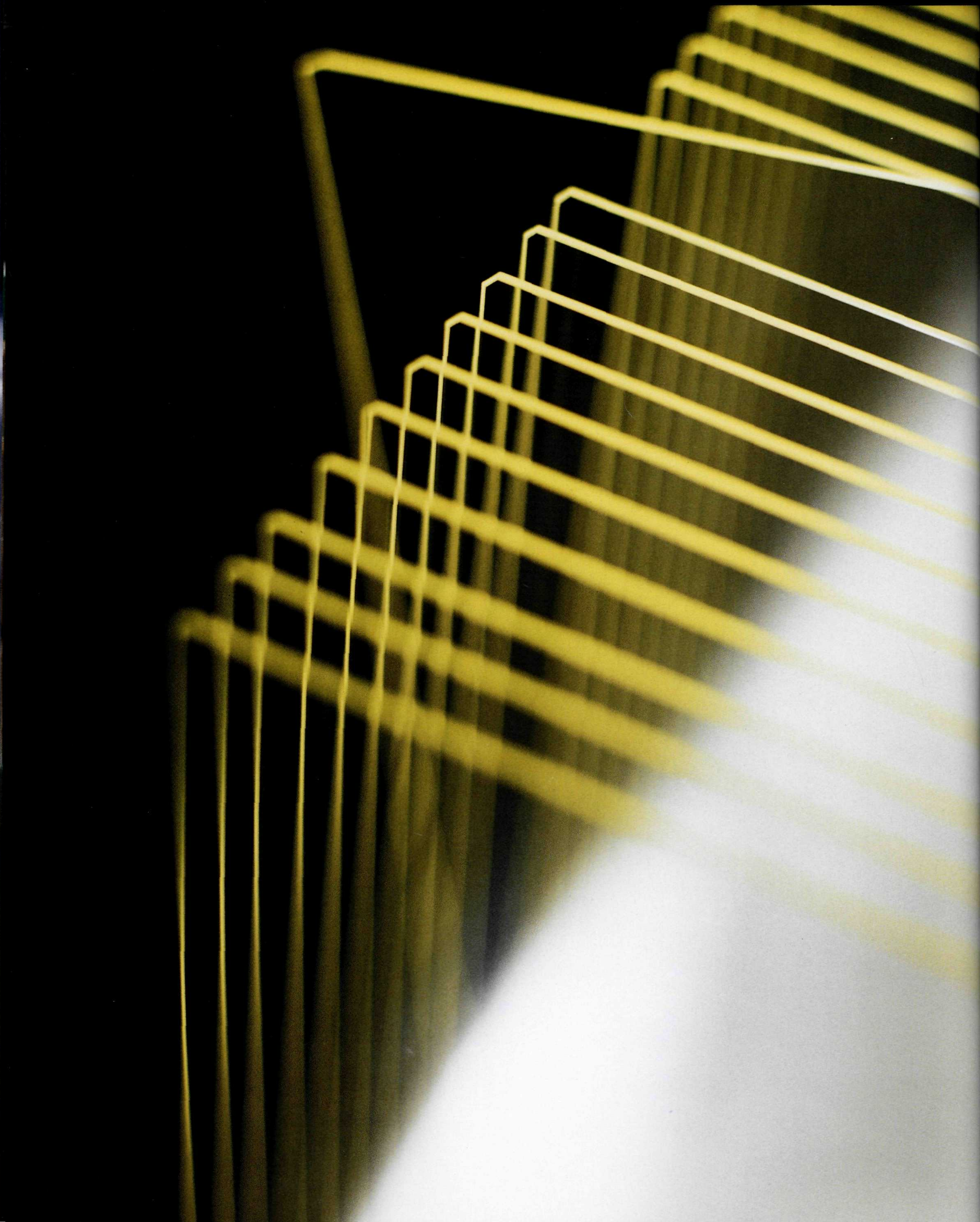
Through 1998, voice transmissions still exceeded data transmissions on U.S. long-distance lines. But experts project that by 2005, information flowing between computers will account for nearly three-quarters of all network traffic and require a sixfold increase in network capacity.



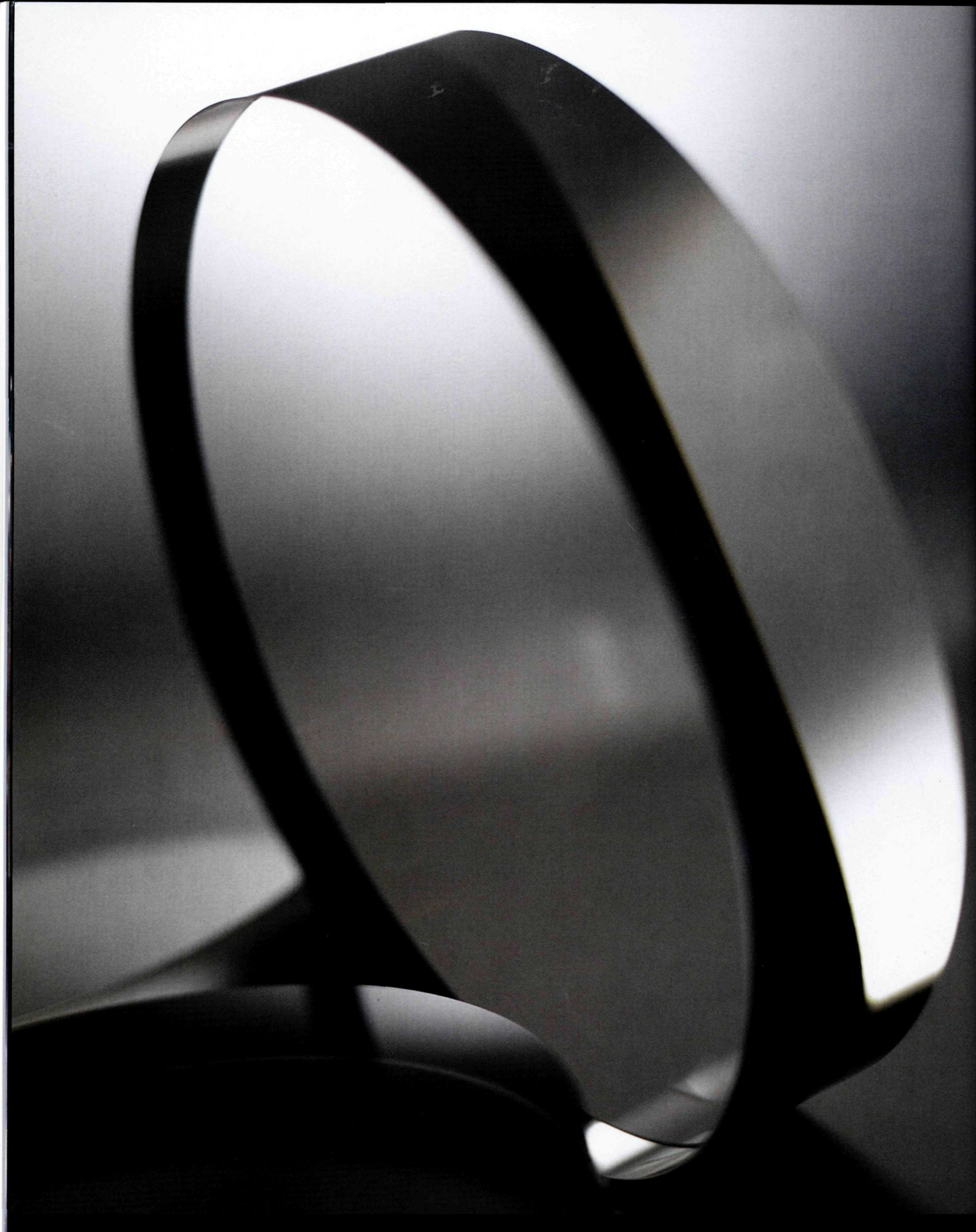
Corning's photonic technology is at the heart of today's most advanced telecommunications networks. This optical amplifier module, developed in close collaboration with Corning customers, is one of many products developed by Corning that boost, combine, separate and connect optical signals on the world's fastest networks.

Demand for increased network capacity is fueled by global infrastructure development, explosive Internet growth and the trend to increasingly complex multimedia applications. Traffic at www.corning.com typified the experience of companies all over the world, rising by a factor of 10 from 1997 to 1998.

To the consumer it's the ultra-light, ultra-thin glass that goes into an LCD screen; to the engineer it's a transparent electronic substrate, loaded with invisible circuitry. Either way, it's essential to notebook computers and a growing array of hand-held devices and consumer electronic products. Corning and its affiliates make more of it than everyone else in the world put together.

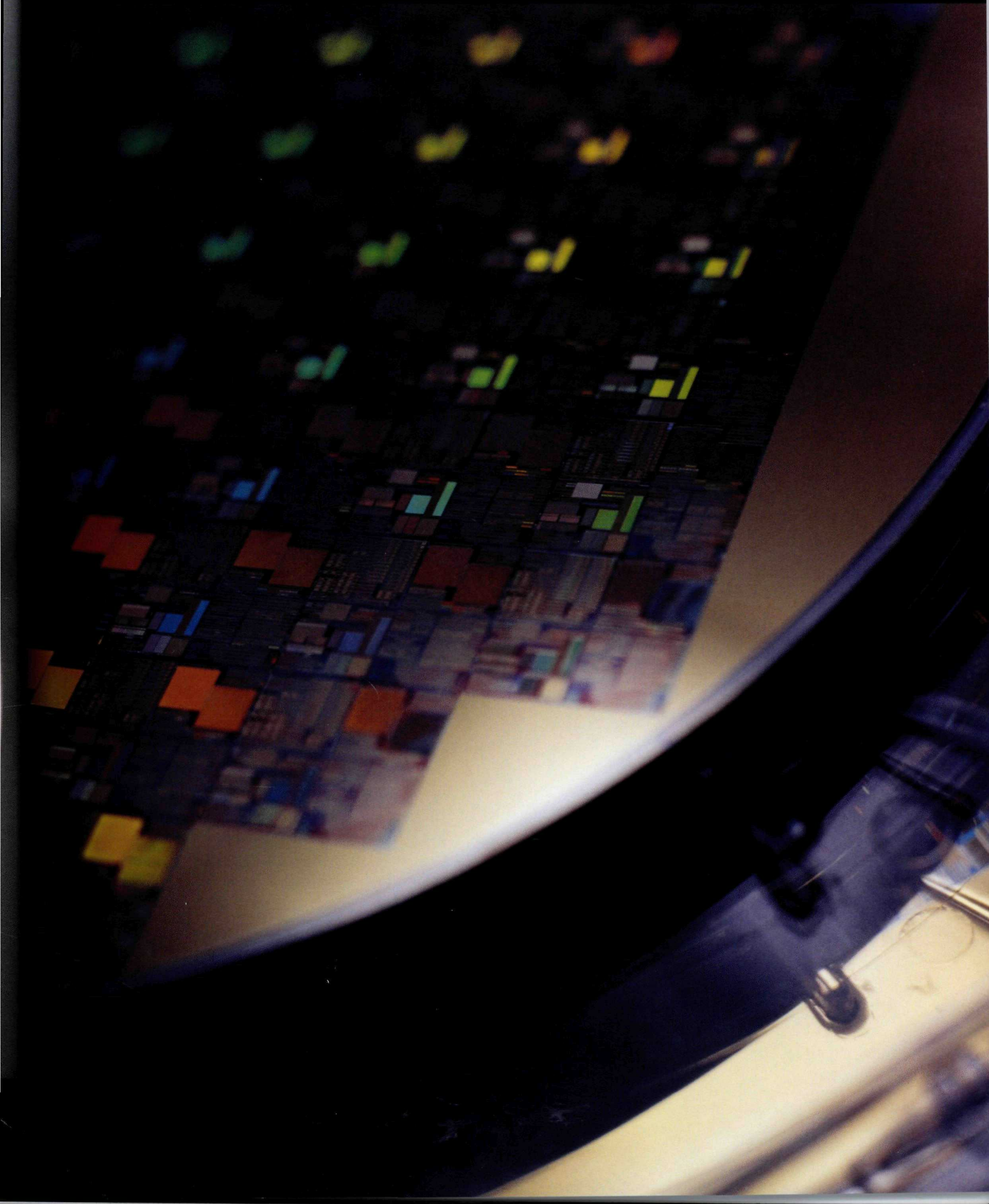


Flat-screen monitors have long been ubiquitous in the world of laptop computers. Now they're moving onto desktops as well, thanks to high-resolution, energy-efficient designs and minimal space requirements. Corning's ability to mass-produce large sheets of screen glass to sub-micron precision standards makes it the leading choice of computer and consumer electronics companies around th



As semiconductor makers continue to push for greater miniaturization, the design of optics required for microlithography "stepper" systems becomes critical to the ability to upgrade manufacturing capabilities. Corning's high purity fused silica is the worldwide standard for the huge lens assemblies needed to produce circuit patterns. Current line widths are less than 1/400th the diameter of a single human hair.

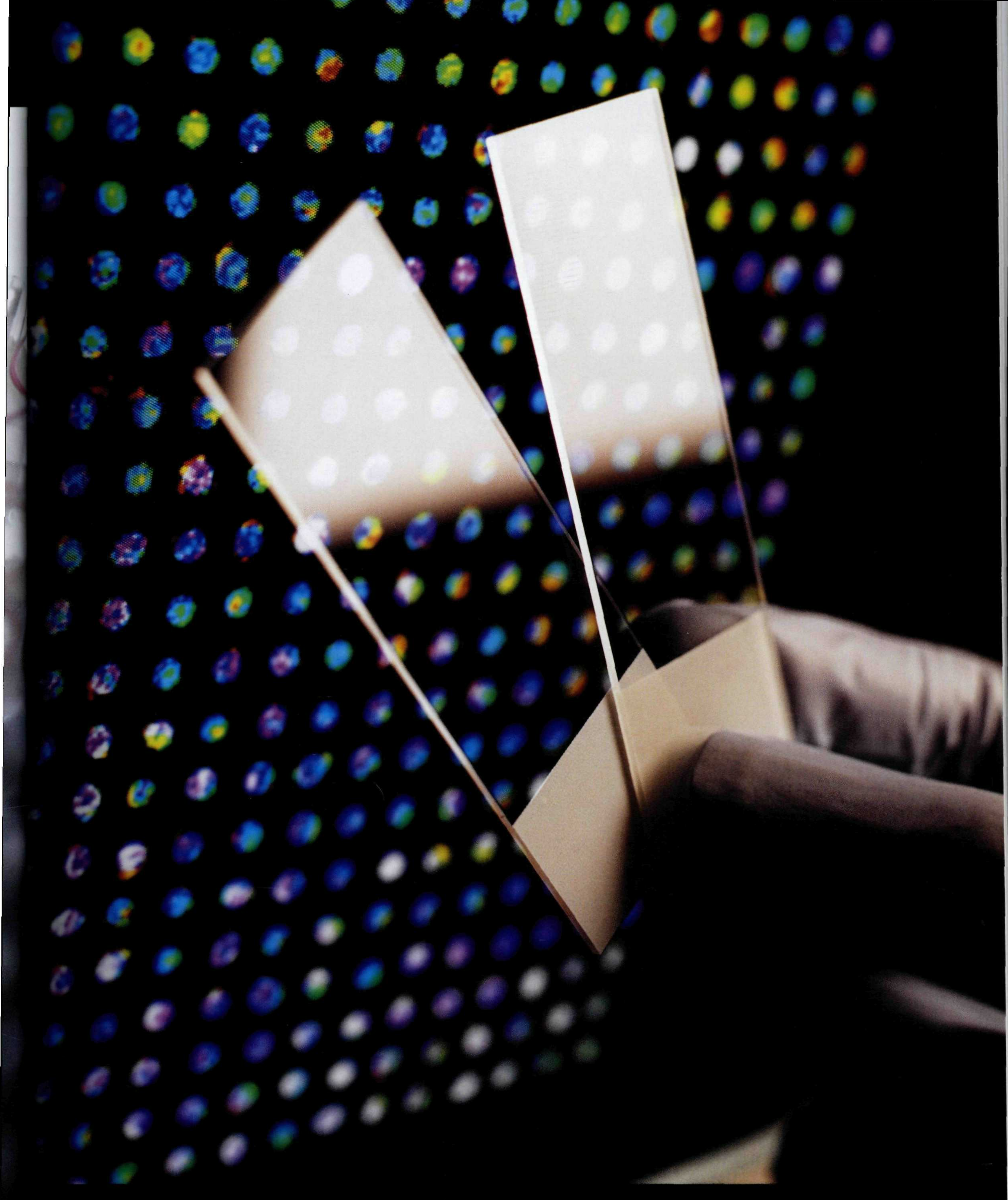
Corning scientists are now working on advanced photomasking techniques and new materials such as calcium fluoride crystals for systems to be used over the next 15 years. Corning works closely with companies throughout the semiconductor industry "value chain" to ensure its ability to meet future manufacturing needs that must be anticipated several generations ahead.



More than two decades of leadership in environmental products are reflected in these Corning ceramic substrates destined for use in catalytic converters. High-density versions with 600 cells per square inch — 50% more than conventional substrates — are already in production to enable car makers to comply with increasingly stringent regulations in coming years. Corning applies similar ceramic technology to reduce emissions from power plants.

For years government regulation has been the driving force behind the development of improved means of pollution control. Now car makers are discovering that environmentally friendly performance can be a positive differentiator in an increasingly cluttered consumer marketplace. The result: new appreciation for technologies previously hidden from consumers — and a higher-profile role for Corning's advanced ceramics, integral to low- and ultra-low-emission vehicles.

As pharmaceutical companies pursue the development of advanced therapies, they are increasingly relying on a new generation of automated systems for drug discovery and testing. Corning microplates have been optimized for robotic and instrumental compatibility to enable a wide variety of assay formats in high-throughput screening.



High-throughput drug screening technologies are enabling pharmaceutical and biotechnology companies to achieve geometric increases in R&D productivity. New Corning products are critical components in these high-speed processes.

1998 Financial Review

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SEGMENT HIGHLIGHTS

(In millions)	Revenues 1998	1997	1996
Telecommunications	$1,791.7	$1,795.3	$1,397.7
Advanced Materials	1,020.1	1,030.4	1,031.4
Information Display	644.7	664.2	565.5
Total Segments	3,456.5	3,489.9	2,994.6
Non-segment net sales (1)	27.5	26.9	29.4
Royalty, interest and dividend income	48.4	37.5	29.7
Non-operating gains	39.7		
Total	$3,572.1	$3,554.3	$3,053.7

(1) Includes amounts derived from corporate investments.

(In millions, except per share amounts)	Year Ended December 31, 1998	1997	1996
REVENUES			
Net sales	$3,484.0	$3,516.8	$3,024.0
Royalty, interest and dividend income	48.4	37.5	29.7
Non-operating gains	39.7		
	3,572.1	3,554.3	3,053.7
DEDUCTIONS			
Cost of sales	2,153.9	2,042.3	1,830.1
Selling, general and administrative expenses	487.7	541.6	499.4
Provision for restructuring	84.6		
Research, development and engineering expenses	293.9	250.3	189.2
Interest expense, net	56.7	72.0	57.2
Other, net	55.7	18.9	22.0
Income from continuing operations before taxes on income	439.6	629.2	455.8
Taxes on income from continuing operations	132.8	209.5	151.4
Income from continuing operations before minority interest and equity earnings	306.8	419.7	304.4
Minority interest in earnings of subsidiaries	(60.9)	(76.3)	(52.5)
Dividends on convertible preferred securities of subsidiary	(13.7)	(13.7)	(13.7)
Equity in earnings of associated companies	95.3	79.2	85.1
Income from continuing operations	327.5	408.9	323.3
Income (loss) from discontinued operations, net of income taxes			
Life science businesses			(167.3)
Consumer housewares business	66.5	30.9	19.6
NET INCOME	$ 394.0	$ 439.8	$ 175.6
BASIC EARNINGS PER SHARE			
Continuing operations	$ 1.42	$ 1.79	$ 1.42
Discontinued operations	0.29	0.13	(0.66)
NET INCOME	$ 1.71	$ 1.92	$ 0.76
DILUTED EARNINGS PER SHARE			
Continuing operations	$ 1.39	$ 1.72	$ 1.40
Discontinued operations	0.28	0.13	(0.62)
NET INCOME	$ 1.67	$ 1.85	$ 0.78
SHARES USED IN COMPUTING EARNINGS PER SHARE			
Basic earnings per share	229.6	228.1	227.1
Diluted earnings per share	243.9	245.4	239.5

The accompanying notes are an integral part of these statements.

(In millions, except share amounts)	December 31, 1998	1997
ASSETS		
CURRENT ASSETS		
Cash	$ 12.2	$ 61.0
Short-term investments, at cost, which approximates market value	33.2	36.0
Accounts receivable, net of doubtful accounts and allowances – $15.2/1998; $10.7/1997	636.0	559.7
Inventories	458.7	428.3
Deferred taxes on income and other current assets	170.2	114.1
Total current assets	1,310.3	1,199.1
Investments		
Associated companies, at equity	313.1	292.9
Others, at cost or fair value	53.1	17.1
Plant and equipment, at cost, net of accumulated depreciation	2,684.9	2,267.9
Goodwill and other intangible assets, net of accumulated amortization – $66.7/1998; $51.5/1997	309.7	294.2
Other assets	310.8	263.1
Net assets of discontinued operations		357.6
TOTAL ASSETS	$4,981.9	$4,691.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loans payable	$ 204.6	$ 213.0
Accounts payable	291.7	300.0
Other accrued liabilities	578.4	444.7
Total current liabilities	1,074.7	957.7
Other liabilities	674.1	627.5
Loans payable beyond one year	998.3	1,125.8
Minority interest in subsidiary companies	346.1	349.3
Convertible preferred securities of subsidiary	365.2	365.3
Convertible preferred stock	17.9	19.8
Common shareholders' equity		
Common stock, including excess over par value and other capital – par value $0.50 per share; Shares authorized: 500 million; Shares issued: 265.9 million/1998; 264.3 million/1997	766.0	707.2
Retained earnings	1,521.7	1,296.0
Less cost of 34.4 million/1998 and 32.7 million/1997 shares of common stock in treasury	(790.0)	(724.5)
Accumulated other comprehensive income	7.9	(32.2)
Total common shareholders' equity	1,505.6	1,246.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,981.9	$4,691.9

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Corning Incorporated and Subsidiary Companies

(In millions)	Year Ended December 31, 1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 394.0	$ 439.8	$ 175.6
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
(Income) loss from discontinued operations	(66.5)	(30.9)	147.7
Depreciation and amortization	298.0	285.9	252.3
Non-operating gains	(39.7)		
Provision for restructuring, net of cash spent	61.3		
Employee benefit expense in excess of cash funding	40.6	35.2	11.2
Equity in earnings of associated companies, less than (in excess of) dividends received	(32.0)	(13.9)	2.9
Minority interest in earnings of subsidiaries in excess of dividends paid	8.7	40.8	18.8
(Gains) losses on disposition of properties and investments	9.3	(6.2)	5.1
Deferred tax provision (benefit)	(4.0)	(10.3)	17.7
Other non-cash items	34.4	3.8	(6.8)
Changes in operating assets and liabilities:			
Accounts receivable	(56.1)	(69.9)	(92.1)
Inventories	(7.3)	(69.5)	(64.5)
Other current assets	(14.0)	(8.4)	(21.1)
Accounts payable and other current liabilities	10.9	57.7	74.3
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	637.6	654.1	521.1
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to plant and equipment	(713.6)	(745.6)	(560.2)
Acquisitions of businesses, net	(43.5)	(32.0)	(15.1)
Net proceeds from disposition of properties and investments	140.3	56.2	35.9
Proceeds from divestiture of consumer housewares business	593.1		
Proceeds from distributions of subsidiaries			650.0
Net increase in long-term investments	(102.1)	(8.8)	(12.7)
Other, net	0.1	16.8	19.7
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(125.7)	(713.4)	117.6
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of loans	300.4	129.8	415.4
Repayments of loans	(148.4)	(33.0)	(205.0)
Repayments of loans with proceeds from divestiture of consumer housewares business in 1998 and distributions of subsidiaries in 1996	(343.0)		(450.0)
Increase in minority interest due to capital contributions			8.6
Proceeds from issuance of common stock	22.4	37.2	43.4
Repurchases of common stock	(59.7)	(50.1)	(83.9)
Dividends paid	(168.3)	(167.8)	(167.2)
NET CASH USED IN FINANCING ACTIVITIES OF CONTINUING OPERATIONS	(396.6)	(83.9)	(438.7)
Effect of exchange rates on cash	5.1	3.1	(2.2)
Effect of accounting calendar change on cash			(17.5)
Cash provided by (used in) discontinued operations	(172.0)	22.0	(141.9)
Net change in cash and cash equivalents	(51.6)	(118.1)	38.4
Cash and cash equivalents at beginning of year	97.0	215.1	176.7
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 45.4	$ 97.0	$ 215.1

The accompanying notes are an integral part of these statements.

(In millions, except per share amounts)

	Common Stock	Capital in Excess of Par Value	Unearned Compensation	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCE, DECEMBER 31, 1995	**$129.3**	**$1,116.7**	**$(133.0)**	**$1,496.5**	**$(563.0)**	**$ 56.5**	**$ 2,103.0**
Net income				175.6			175.6
Foreign currency translation adjustment						(12.9)	(12.9)
Total comprehensive income							162.7
Shares issued	1.2	45.6					46.8
Corning Stock Ownership Trust			(19.7)				(19.7)
Distributions of subsidiaries		(653.5)		(473.2)			(1,126.7)
Repurchases of shares					(50.5)		(50.5)
Dividends on stock ($0.72 per share)				(167.2)			(167.2)
Other, net		53.5	25.9	(7.7)	(59.0)		12.7
BALANCE, DECEMBER 31, 1996	**130.5**	**562.3**	**(126.8)**	**1,024.0**	**(672.5)**	**43.6**	**961.1**
Net income				439.8			439.8
Foreign currency translation adjustment						(75.8)	(75.8)
Total comprehensive income							364.0
Shares issued	1.7	111.0					112.7
Corning Stock Ownership Trust			14.5				14.5
Repurchases of shares					(50.1)		(50.1)
Dividends on stock ($0.72 per share)				(167.8)			(167.8)
Other, net		19.6	(5.6)		(1.9)		12.1
BALANCE, DECEMBER 31, 1997	**132.2**	**692.9**	**(117.9)**	**1,296.0**	**(724.5)**	**(32.2)**	**1,246.5**
Net income				394.0			394.0
Foreign currency translation adjustment						41.1	41.1
Unrealized loss on marketable securities, net of tax						(1.0)	(1.0)
Total comprehensive income							434.1
Shares issued	0.8	42.7					43.5
Corning Stock Ownership Trust			(3.1)				(3.1)
Repurchases of shares					(59.7)		(59.7)
Dividends on stock ($0.72 per share)				(168.3)			(168.3)
Other, net		28.5	(10.1)		(5.8)		12.6
BALANCE, DECEMBER 31, 1998	**$133.0**	**$ 764.1**	**$(131.1)**	**$1,521.7**	**$(790.0)**	**$ 7.9**	**$ 1,505.6**

The accompanying notes are an integral part of these statements.

(Unaudited)

Corning's strategy is to focus its resources on growth opportunities in its Telecommunications, Advanced Materials and Information Display Segments. During 1998, this objective was evidenced through facility and capacity expansion and an increase in research and development spending within Corning's growth businesses.

Following a record year in 1997, Corning's results were adversely impacted throughout 1998 by the effects of the Asian economic slowdown, which began in the fourth quarter of 1997. These effects, which included a substantial reduction in prices in many businesses and a downward shift in customer demand for certain Corning products, were most significant in the first half of the year and caused net income for the first half of 1998 to be down significantly in comparison to net income for the same period in 1997. During the second half of the year, Corning benefited from an increase in new premium fiber product sales and stronger results in many other businesses, due in part to restructuring and other cost reduction programs. As a result, comparisons in the second half were better than the first; however, net income for the year was down from 1997.

Looking forward, Corning is optimistic that it will resume overall earnings growth in 1999, and is committed to continued investment in the development of new products in all three operating segments.

RESULTS OF CONTINUING OPERATIONS

Consolidated sales in 1998 were $3.48 billion, down slightly from 1997. Significant pricing pressures in many key businesses accelerated by the continued volatility in the Asian marketplace were mostly offset by volume gains primarily in the Telecommunications Segment. Strong demand for optical fiber and cable products in 1997 drove consolidated sales to a 16% increase over 1996.

Income from continuing operations totaled $327.5 million, or $1.39 per share, in 1998 compared with income from the same operations of $408.9 million, or $1.72 per share, in 1997, and $323.3 million, or $1.40 per share, in 1996. Net income and earnings per share in 1998 include a restructuring charge of $84.6 million ($49.2 million after tax and minority interest), or $0.21 per share, and non-operating gains totaling $39.7 million ($22.9 million after tax), or $0.10 per share, from the merger between Molecular Simulations, Inc. and Pharmacopeia, Inc. and the divestiture of several small science products businesses.

Excluding the restructuring charge and the non-operating gains, Corning's income and earnings per share from continuing operations were $353.8 million, or $1.50 per share, a decline of 13% from results of the same operations in 1997. The decrease in earnings primarily reflects a significant decline in the performance of the Telecommunications Segment, a modest decline in the results of the Advanced Materials Segment and improved operating performance of the Information Display Segment.

In 1997, Corning's income and earnings per share from continuing operations increased 26% and 23%, respectively, over results from the same operations in 1996. Earnings in 1997 reflect strong performance in the Telecommunications Segment, increased earnings from the Advanced Materials Segment and improved results in the Information Display Segment.

OPERATING SEGMENTS

Corning's products and services are grouped into three operating segments: Telecommunications, Advanced Materials and Information Display. The earnings of equity affiliates, which are closely associated with Corning's operating segments. are included in segment net income. Additional information on the acquisitions and divestitures discussed in the segment analysis is included in Note 2 of the Notes to Consolidated Financial Statements.

The financial results for Corning's three operating segments have been prepared on a basis that is consistent with the manner in which Corning management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. In this regard, certain common expenses have been allocated among segments differently than would be required for stand alone financial information prepared in accordance with generally accepted accounting principles.

(In millions)	1998	1997	1996
Net sales	$1,791.7	$1,795.3	$1,397.7
Segment earnings before minority interest			
and equity earnings	$ 221.9	$ 307.3	$ 247.6
Minority interest	(37.3)	(46.0)	(38.1)
Equity in earnings of associated companies	20.7	36.2	44.9
Segment net income	$ 205.3	$ 297.5	$ 254.4

Sales in the Telecommunications Segment were flat in 1998 compared to 1997, as significant declines in the optical fiber and cable businesses offset gains in the photonic technologies and hardware and equipment businesses. Segment net income decreased significantly in 1998 primarily due to a decline in the profitability of optical fiber and cable, higher research and development spending and lower equity earnings.

Optical fiber and cable sales decreased substantially in 1998, as strong volume growth in the domestic fiber markets was more than offset by pricing declines, particularly within the international fiber markets. Domestic volume growth continues to be driven by regional, local and long-haul telephone companies and cable television operators who are installing optical fiber to increase network capacity, reducing operating costs and adding new services. Volume was also driven by the introduction of high data rate premium fibers, particularly in the second half of the year. The continued reduction in optical fiber prices is the result of overcapacity in the worldwide optical fiber market, which was exacerbated in 1998 by the economic events occurring throughout the Asian marketplace. Earnings in the optical fiber and cable businesses in 1998 declined significantly in comparison to 1997, reflecting the lower margin on fiber and cable sales and decreased equity earnings in Corning's international optical fiber equity companies. Equity earnings declined primarily due to a reduction in prices, weak volume and a restructuring charge recorded in the third quarter.

Due to the overcapacity in the global fiber market throughout 1998, Corning slowed the construction of its new $400 million optical fiber production facility in Concord, North Carolina. Corning currently expects to begin production at this facility in late 1999 or early 2000, depending on market conditions.

In December 1998, Corning acquired the 50% holdings in Optical Fibres previously owned by BICC plc for consideration of $47 million in cash and assumption of $27 million of debt. As a result, Corning now owns 100% of this subsidiary and began consolidating its results in December 1998.

Sales and earnings of Corning's optical fiber and optical cable businesses increased significantly in 1997 compared to 1996 as a result of strong worldwide demand for information transmission products, reflecting the need for increased capacity within domestic fiber markets and the upgrade of existing telecommunication infrastructures by China and other developing countries. Equity earnings decreased in comparison to 1996, as volume increases in European equity companies were offset by price declines and reduced volume in Australian and Southeast Asian markets. In response to the dramatic increase in worldwide demand for optical fiber starting in 1996 and continuing in 1997, Corning increased capacity during 1997 with the completion of an approximately $250 million expansion of its optical fiber production facility in Wilmington, North Carolina and began construction on the new production facility in Concord, North Carolina.

In 1997, Corning formed Samara Optical Cable Company, located in Samara, Russia, which is owned by Corning and Samara Cable Company. This investment is expected to improve geographic market access for optical fiber produced in Corning's domestic production facilities. Sales and earnings of this business were not significant in 1998 and 1997.

The photonic technologies business experienced sales growth of more than 30% in 1998 following growth of 150% in 1997. This growth reflects a substantial increase in volume of fiber gain modules and the introduction of new products. Sales in 1997 also reflected increased volume and the second quarter acquisition of Optical Corporation of America, a worldwide supplier of opto-electronic components. The growth in sales over the last three years has been more than offset by costs related to expanding production facilities and by substantial research and development spending, which more than doubled in 1998 and resulted in the business incurring a loss in all three years. In 1997, Corning substantially completed construction of a $40 million production facility near Corning, New York.

Sales and earnings in Corning's telecommunications hardware and equipment business increased slightly in 1998 as volume gains and cost reduction efforts offset price declines. In 1997, sales and earnings in the business increased as volume gains offset costs associated with the consolidation of certain plant operations.

OUTLOOK Sales in the Telecommunications Segment are expected to increase significantly in 1999, primarily due to stronger demand for fiber, cable and photonic technology products throughout the global marketplace, offset somewhat by continued pricing pressures. Segment sales will also be favorably impacted by the consolidation of Optical Fibres, which had sales of approximately $100 million in 1998. Segment net income is expected to resume double-digit growth in 1999 as sales gains in the fiber, cable and photonic businesses will more than offset increased research and development spending in photonics and the costs associated with the completion of the Concord plant. Equity earnings from the optical fiber equity companies will be lower in 1999 due primarily to the consolidation of Optical Fibres.

ADVANCED MATERIALS

(In millions)	1998	1997	1996
Net sales	$1,020.1	$1,030.4	$1,031.4
Segment earnings before minority interest and equity earnings	$ 75.9	$ 89.8	$ 63.5
Minority interest	0.3	0.7	3.0
Equity in earnings of associated companies	17.6	13.1	8.8
Segment net income	$ 93.8	$ 103.6	$ 75.3

Sales in the Advanced Materials Segment in 1998 decreased slightly in comparison to 1997, as volume gains in the science products business were offset by a decline in volume in the semiconductor materials and optical products businesses. Segment net income decreased in 1998, primarily due to higher research and development spending within the science products business and expansion related costs in the semiconductor materials business. Segment sales were flat in 1997 in comparison to 1996, as significant growth from the semiconductor materials business was offset by a decline in the optical products business and relatively flat sales in the other businesses of this segment. Segment net income increased significantly in 1997 from the sales gains in the semiconductor materials business and performance improvements in the science products business and at Quanterra Incorporated, an environmental testing business.

Sales in the environmental products business in 1998 were comparable to 1997, as strong volume growth in Europe and modest growth in North America was offset by a substantial decline in demand within the Asian market. Earnings increased significantly in 1998, reflecting manufacturing efficiencies, which were offset somewhat by unfavorable exchange rates. In 1998, Corning announced its plans to build a new, $80 million wholly-owned manufacturing facility in China to meet anticipated demands for emission-control products throughout Asia. Construction is expected to begin in 1999. Sales and earnings in this business were flat in 1997 compared to 1996, reflecting steady volume levels in North America and an increase in volume in Europe, which were offset by the impact of employee strikes at Korean automobile manufacturers during the year and from unfavorable exchange rates. Earnings in 1997 also reflect higher development spending for new products.

Sales in the semiconductor materials business were down slightly while earnings decreased significantly in 1998, as the slowdown in the semiconductor manufacturing equipment industry impacted demand and pricing for high purity fused silica products. As a result of the decline in demand for these products, the start-up of Corning's new manufacturing facility near Charleston, South Carolina has been delayed until at least the second half of 1999. In 1997, sales and earnings in this business increased substantially in comparison to 1996 due to the strong demand for high purity fused silica products and isolator polarizers for the telecommunications industry.

Sales in the science products business increased slightly in 1998, reflecting volume gains in plastic products driven mainly by international growth and in products used in the advanced life science market. Earnings in this business decreased in 1998 in comparison with 1997, as volume growth and manufacturing efficiencies were more than offset by higher research and development spending on new products for advanced life science applications. Sales and earnings in the science products business in 1997 were comparable to 1996, with gains in plastic products primarily from international markets and in new products being offset by declines in glass products. Sales in 1997 were also impacted by inventory reductions in the distribution channels for the plastics business and unfavorable exchange rates. Earnings increased in 1997 due to a favorable sales mix and cost reduction efforts.

Sales and earnings of Corning's other Advanced Materials businesses, consisting of optical and lighting products, decreased in 1998 and 1997 due to a decline in the optical products business as consumer demand continued to shift from glass to plastic lenses. The demand for optical products was also impacted by weakened economies within the Asian, European and Latin American markets. Earnings in 1998 were impacted by development and promotional spending for new photochromic plastic products in the optical products business. Earnings increased in 1997 primarily due to performance improvements in the lighting products business, which were partially offset by development spending in the optical products business.

Segment earnings also include equity earnings from Eurokera and Keraglass, S.N.C., a French-based manufacturer of glass ceramic cooktops. Earnings of this business increased in 1998 and 1997, as a result of the growing demand for glass ceramic cooktops both in Europe and the United States, offset somewhat by expansion costs and development spending on new products. Eurokera has begun an expansion of their facility in France that will increase its production capacity by 2000.

OUTLOOK Segment sales in 1999 are expected to be up slightly in comparison with 1998 levels, as volume gains from advanced life science products within the science products business, increased demand for high purity fused silica products from the semiconductor materials business, modest growth in the environmental products business, and the introduction of new photochromic plastic lens products from the optical products business offset continued softness in the demand for glass lens products. Segment net income is expected to increase in 1999, reflecting anticipated growth in the semiconductor materials and optical products businesses and planned manufacturing efficiencies within all segment businesses, offset in part by higher research and development spending in the science and optical products businesses.

INFORMATION DISPLAY

(In millions)	1998	1997	1996
Net sales	$644.7	$664.2	$565.5
Segment earnings before minority interest and equity earnings	$ 39.2	$ 16.4	$(10.0)
Minority interest	(27.6)	(31.0)	(17.4)
Equity in earnings of associated companies	44.9	21.7	22.6
Segment net income (loss)	$ 56.5	$ 7.1	$ (4.8)

Sales in the Information Display Segment decreased in 1998 primarily due to lower prices in the conventional video components and advanced display products businesses offset in part by volume gains in the projection video business. Prices were impacted by a worldwide surplus of glass in the conventional television business and increased competition within the Asian marketplace. Sales in this segment increased in 1997 primarily due to volume growth in the conventional video components and advanced display products businesses.

Segment net income in 1998 improved substantially as a result of increased equity earnings, primarily from Samsung Corning Company, Ltd., improved performance within the projection video business and reduced research and development spending. Segment net income in 1997 improved in comparison to 1996 as the impact on earnings from volume growth and equity earnings was partially offset by expansion related costs and research and development spending.

Sales and earnings in the conventional video components business decreased in 1998 primarily due to price reductions caused by a worldwide surplus of television glass. Earnings in this business were further impacted by a scheduled glass furnace repair during the first half of the year, but improved in the second half due to the implementation of cost reduction programs. In 1998, Corning completed the final phase of the $200 million expansion at its State College, Pennsylvania, television glass plant, which substantially increased Corning's capacity to make large size video components. Sales in this business increased in 1997 primarily due to volume gains, while earnings increased significantly over 1996 levels, which were impacted by costs associated with glass furnace repairs and expansion related activities.

Sales in the projection video components business increased in 1998 primarily due to renewed growth of projection televisions in the consumer market sector driven by demand for larger sizes, partially offset by softness in the institutional market sector. Earnings in this business increased significantly in 1998 primarily due to the increase in sales and continued manufacturing efficiencies. In 1997, sales in this business increased modestly due to gains achieved from a stronger institutional market, offsetting volume declines in the consumer market. Earnings increased in 1997 due to this increase in volume and certain manufacturing cost efficiencies.

Sales in the advanced display products business, which produces precision flat glass for flat panel liquid crystal displays, decreased in 1998 as volume gains were offset by price declines and unfavorable exchange rates. Sales of glass into Korea declined as Samsung Corning Precision Glass Company, Ltd., an equity affiliate, increased its penetration in that marketplace. The 1998 loss from this business was significantly less than 1997, primarily due to reduced research and development spending, manufacturing efficiencies and increased equity earnings. Equity earnings growth resulted from Samsung Corning Precision, which began producing liquid crystal display glass in Korea in 1996 and experienced strong volume growth in the Korean market and favorable exchange rates. In 1997, sales in the advanced display products business were comparable to 1996 as substantial volume gains were offset by price declines and the impact of unfavorable exchange rates. This business incurred a loss in 1997 as a result of heavy spending on new product development, which more than offset improved operating performance. Samsung Corning Precision achieved break-even operating results in 1997, as currency translation losses negatively impacted earnings.

Equity earnings within segment net income primarily reflect the results of Samsung Corning Company, Ltd., a manufacturer based in South Korea that produces glass panels and funnels for television and display monitors. Equity earnings in this business increased in 1998 in comparison to 1997, particularly during the first half of the year, as the impact of a worldwide oversupply of glass and a tank repair in the fourth quarter were more than offset by significant restructuring and cost control measures implemented during the year. Earnings from Samsung Corning increased in 1997 as a direct result of the acquisition and building of manufacturing and sales facilities in Germany and Malaysia as part of a global expansion plan. Samsung Corning's results were also favorably impacted by additional volume received while a competitor incurred an employee strike, which offset price declines driven by a competitive Asian market.

In 1997, Corning participated in the creation of two other equity ventures: The American Video Glass Company and Video Monitores de Mexico, S.A. de C.V. (Video Monitores). American Video Glass Company is a partnership between Sony Electronics, Inc., Asahi Glass of America and Corning, and manufactures and supplies television glass components to Sony's North American operations. Video Monitores is an equity venture between Corning, Asahi Glass Company of America, Inc. and Samsung Video Glass America, Inc., which is in the process of building a manufacturing facility in Mexico to finish glass funnels and panels for color television tubes for the North American market. Equity earnings of these businesses were not significant in 1998 or 1997.

OUTLOOK Sales in the Information Display Segment are expected to increase in 1999, primarily driven by increased volume in the projection video components and advanced display products businesses, partially offset by reduced volume and pricing pressures within the conventional video components business. Segment net income is expected to be comparable with 1998, as favorable comparisons from the conventional video components business, the projection video business and the advanced display products business will likely offset lower equity earnings at Samsung Corning.

NON-SEGMENT RESULTS

Corning's non-segment results include the operations of Steuben Glass, a crystal manufacturer, and equity earnings from Pittsburgh Corning Corporation, Pittsburgh Corning Europe N.V. and other small strategic investments that are not aligned with Corning's three operating segments. In addition, the results of operating segments do not include non-operating gains and restructuring charges.

Non-operating gains

In 1998, Corning recorded a second quarter non-operating gain of $20.5 million ($13.2 million after tax), or $0.06 per share, as a result of the merger between Molecular Simulations, Inc. and Pharmacopeia, Inc. The 1998 results also include a fourth quarter non-operating gain of $19.2 million ($9.7 million after tax), or $0.04 per share, related to the divestiture of several small science products businesses.

Restructuring charge

In 1998, Corning recorded a restructuring charge of $84.6 million ($49.2 million after tax and minority interest), or $0.21 per share, for early retirement incentives and severance costs. The restructuring charge relates to approximately 650 employees, of which 610 have been terminated or notified of their termination at December 31, 1998. Management believes that the workforce reductions will significantly reduce operating costs and will be substantially completed in the first half of 1999. Management believes that the costs of restructuring will be financed through operating cash flows and the proceeds from the sale of the consumer housewares business, and does not anticipate any significant impact on its liquidity as a result of the restructuring plan.

TAXES

Corning's effective tax rate for continuing operations before consideration of non-operating gains and the provision for restructuring was 30.5% in 1998, 33.3% in 1997 and 33.2% in 1996. The lower 1998 rate was due to a higher percentage of Corning's earnings resulting from consolidated entities with lower effective tax rates. Note 6 of the Notes to Consolidated Financial Statements reconciles the effective tax rate to the statutory tax rate.

RESULTS OF DISCONTINUED OPERATIONS

On April 1, 1998, Corning completed the recapitalization and sale of a controlling interest in its consumer housewares business (the Consumer transaction). Corning continues to retain an eight percent interest in the Corning Consumer Products Company. On December 31, 1996, Corning distributed shares of Quest Diagnostics Incorporated and Covance Inc., which collectively comprised Corning's Health Care Services Segment, to its shareholders on a pro rata basis (the Distributions). Prior to the Distributions, Corning received a ruling from the Internal Revenue Service that the Distributions were tax-free to Corning and its shareholders. As a result of the Distributions, Quest Diagnostics and Covance became independent, publicly traded companies. Corning's Consolidated Financial Statements report the consumer housewares business, Quest Diagnostics and Covance as discontinued operations.

Results of discontinued operations in 1998 and 1997 pertain to the consumer housewares business and only include operating results through March 31, 1998. Income from discontinued operations in 1998 totaled $66.5 million, or $0.28 per share, and included an after-tax gain from the transaction of $67.1 million, or $0.29 per share, recognized in the second quarter. Income from discontinued operations in 1997 totaled $30.9 million, or $0.13 per share.

The loss from discontinued operations in 1996 included a loss related to the Health Care Services Segment of $167.3 million, or $0.70 per share, offset by income from the consumer housewares business of $19.6 million, or $0.08 per share. The loss from the Health Care Services Segment in 1996 includes a provision for loss on the Distributions of $176.5 million, or $0.74 per share, offset by income from discontinued operations totaling $9.2 million, or $0.04 per share, recognized in the first quarter of 1996, prior to Corning's decision to complete the Distributions. The $176.5 million provision for loss on Distributions included a $142 million after-tax charge to increase reserves for government claims and an after-tax charge for transaction costs offset by the results of operations of the distributed businesses from April 1, 1996 through December 31, 1996, the Distribution date.

Results of discontinued operations include allocations of consolidated interest expense totaling $2.7 million, $13.0 million and $63.5 million in 1998, 1997 and 1996, respectively. The allocations were based on the ratio of net assets of discontinued operations to consolidated net assets.

Corning has agreed to indemnify Quest Diagnostics on an after-tax basis for the settlement of certain government claims and against certain other claims that were pending at December 31, 1996. Coincident with the Distributions, Corning recorded a payable to Quest Diagnostics of approximately $25 million, which was equal to management's best estimate of amounts which were probable of being paid by Corning to Quest Diagnostics to satisfy the remaining indemnified claims on an after-tax basis.

Although management believes that recorded reserves for indemnified claims are sufficient, it is possible that additional information may become available to Quest Diagnostics' management, which may cause the final resolution of these matters to exceed established reserves by an amount which could be material to Corning's results of operations and cash flow in the period in which such claims are settled. Management does not believe that these issues will have a material adverse impact on Corning's overall financial condition.

LIQUIDITY AND CAPITAL RESOURCES

Corning's working capital decreased from $241.4 million at the end of 1997 to $235.6 million at the end of 1998. The ratio of current assets to current liabilities was 1.2 at the end of 1998 compared with 1.3 at year end 1997. Corning's long-term debt as a percentage of total capital was 31% at the end of 1998, compared with 36% at the end of 1997. The decrease in the long-term debt percentage is primarily due to the increase in shareholders' equity.

In 1998, Corning used a portion of the proceeds from the sale of the consumer housewares business to repay approximately $343 million of short-term borrowings.

During the fourth quarter of 1996, Quest Diagnostics and Covance borrowed approximately $650 million from third-party lenders and repaid intercompany debt to Corning prior to the Distributions. Corning used the proceeds from the repayment of intercompany debt to repay approximately $375 million of short-term borrowings and $75 million of long-term debt.

On February 16, 1999, Corning Delaware L.P., a special purpose limited partnership in which Corning is the sole general partner, called for redemption all Convertible Monthly Income Preferred Securities (MIPS). The MIPS were guaranteed by Corning and convertible into Corning common stock at the rate of 1.534 shares of Corning common stock for each MIPS. Holders of the MIPS have the option of either receiving $51.80 in cash for each share, or converting them into Corning common stock, which had a fair market value after conversion of $74.88 per share at February 16, 1999. Management expects a majority of the MIPS holders to convert their preferred securities into Corning common stock.

Corning's working capital position is reinforced by available bank credit lines totaling $825 million and the ability to issue up to $375 million of medium and long-term debt under existing shelf-registration statements filed with the Securities and Exchange Commission. Corning's management believes the Company has sufficient financial flexibility and ready access to funds to meet seasonal working capital requirements, capital expenditures, acquisitions and other long-term growth opportunities.

CASH FLOWS

Cash and short-term investments at the end of 1998 decreased from 1997 by $51.6 million, as cash provided by operating activities of $637.6 million was more than offset by cash used in investing and financing activities of $125.7 million and $396.6 million, respectively, as well as cash used in discontinued operations of $172.0 million. Cash and short-term investments at the end of 1997 decreased from 1996 by $118.1 million due to operating activities and discontinued operations which provided cash of $654.1 million and $22.0 million, respectively, offset by investing and financing activities which used cash of $713.4 million and $83.9 million, respectively.

Net cash provided by operating activities decreased in 1998 from 1997 as lower cash from operations and equity affiliates was offset somewhat by less cash used for working capital. Cash flows from operating activities in 1997 increased compared with 1996 due primarily to increased earnings.

Net cash used by investing activities in 1998 totaled $125.7 million, a reduction from $713.4 million in 1997. This decrease reflects the proceeds received from the Consumer transaction. In 1996, Corning generated cash from investing activities as proceeds from the repayment of intercompany debt by Quest Diagnostics and Covance, prior to the Distributions, were greater than capital spending.

Corning invested significant cash in capital expansions in the last three years. Capital spending amounted to $713.6 million, $745.6 million and $560.2 million in 1998, 1997 and 1996, respectively. Corning anticipates capital spending will approximate $650 million in 1999. The high level of capital spending since 1996 relates primarily to capacity expansions in Corning's growth businesses and expanded research and development facilities.

Corning used a portion of the proceeds from the Consumer transaction to repay short-term debt causing an increase in cash used in financing activities over 1997. Corning used cash in financing activities in 1997 as dividend payments and repurchases of common stock more than offset net borrowings. The level of cash used in financing activities in 1997 was lower than in 1996, which reflected a high level of net loan repayments with the proceeds from the Distributions.

Corning repurchased $59.7 million, $50.1 million and $83.9 million of its common stock in 1998, 1997 and 1996, respectively. All of the 1998, 1997 and approximately $50 million of the 1996 amount were repurchased pursuant to a systematic plan authorized by the Board of Directors. Corning's systematic plan is designed to provide shares for Corning's various employee benefit programs. The remainder of the 1996 stock repurchases were from employees to satisfy tax withholding requirements on shares issued under employee benefit plans.

Dividends paid to common shareholders in 1998 totaled $166.8 million compared with $166.2 million in 1997 and $165.3 million in 1996.

Cash used in discontinued operations totaled $172.0 million and $141.9 million in 1998 and 1996, respectively. Discontinued operations provided cash of $22.0 million in 1997. The high level of cash used in discontinued operations in 1998 is primarily a result of transaction costs and tax payments related to the Consumer transaction. Cash used in discontinued operations in 1996 primarily related to the payment of government claims settlements related to Quest Diagnostics.

DOW CORNING CORPORATION

Corning is a 50% owner of Dow Corning Corporation (Dow Corning), a manufacturer of silicones. The other 50% of Dow Corning is owned by The Dow Chemical Company (Dow Chemical).

On May 15, 1995, Dow Corning voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code as a result of several negative developments related to the breast implant litigation. At that time, Corning management believed it was impossible to predict if and when Dow Corning would successfully emerge from Chapter 11 proceedings. As a result, Corning recorded an after-tax charge of $365.5 million, or $1.62 per share, to fully reserve its investment in Dow Corning and discontinued recognition of equity earnings from Dow Corning in 1995. Note 4 of the Notes to Consolidated Financial Statements includes additional financial information related to this investment.

Dow Corning and the Committee of Tort Claimants, one of Dow Corning's Chapter 11 creditor committees, filed with the United States Bankruptcy Court (the Bankruptcy Court) a joint plan of reorganization on November 9, 1998 (the Joint Plan). After hearings held in early 1999, the Bankruptcy Court ruled in early February 1999 that the disclosure statement related to the Joint Plan was adequate to send to Dow Corning's creditors for consideration. In that ruling, the Bankruptcy Court indicated that the period for voting will extend through May 14, 1999 and hearings to confirm the Joint Plan are scheduled to begin on June 28, 1999. To become effective, the Joint Plan will require a favorable vote by many classes of creditors and final Bankruptcy Court approval after confirmation hearings. In addition, appeals of the Bankruptcy Court's confirmation order are possible. The recent developments, including the support of the Committee of Tort Claimants, tend to increase the probability that Dow Corning will successfully emerge from Chapter 11 proceedings, but the timing and the eventual outcome of these proceedings is uncertain.

ENVIRONMENT

Corning has been named by the Environmental Protection Agency under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 13 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by such Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned and operated by Corning based on expert analysis and continual monitoring by both internal and external consultants. Corning has accrued approximately $24 million for its estimated liability for environmental cleanup and related litigation at December 31, 1998.

EFFECTS OF INFLATION

Amounts reflected in the financial statements do not provide for the effect of inflation on operations or financial position. The expenses and asset values, specifically those related to long-lived assets, reflect historical cost and do not necessarily represent replacement cost or charges to operations based on replacement cost. Corning's operations provide funds from operations which, along with other sources, are sufficient to replace fixed assets as necessary. Net income would be lower than reported if the effects of inflation were reflected by charging operations for replacement costs.

YEAR 2000 READINESS DISCLOSURE

Corning has completed an assessment of required modifications or replacement of its key internal software to become Year 2000 compliant. The assessment involved all known areas of concern, including business applications, manufacturing, engineering, research, facilities systems, third party suppliers and service providers.

Implementation, including testing, of required changes to key applications was substantially completed at December 31, 1998, with the remainder to be completed by the middle of 1999. In addition, an external study team is assisting management in evaluating its processes surrounding the Year 2000 project. Progress is monitored and reported to management and to the Audit Committee of the Board of Directors on a regular basis.

In 1995, Corning initiated a significant project to upgrade and improve access to business information with integrated enterprise-wide corporate applications that were Year 2000 compliant. This initiative has mitigated to some extent the amount of Year 2000 costs incurred to date. Corning's current estimate of the total cost for Year 2000 compliance is approximately $25 million, of which approximately $15 million has been spent to date. This estimate includes incremental costs of approximately $12 million comprised primarily of contractor costs to modify existing systems, of which approximately 55% has been spent to date.

Corning has initiated formal communications with all of its significant customers, suppliers and other third parties to determine the extent to which Corning is vulnerable to third parties' failures to remediate their own potential problems related to the Year 2000. Risk assessments, readiness evaluation and contingency plans to protect Corning's business from Year 2000 related interruptions from these third parties and from key customers are expected to be completed before December 31, 1999. Contingency plans will include, for example, stocking of additional inventory and identifying alternative suppliers.

Corning's risk management program includes emergency backup and recovery procedures to be followed in the event of a failure of a key application. This program is being expanded to include specific procedures for potential Year 2000 issues. Corning is taking what it considers to be reasonable steps to prevent major interruptions in its business due to Year 2000 issues. The inability of Corning or significant third parties to adequately address Year 2000 issues could cause inefficiencies in Corning's business operations. The extent to which Corning's operating results may be impacted by customers or suppliers who are not fully Year 2000 compliant is not readily determinable. Corning's operating results and ability to conduct business is dependent upon the infrastructure of the geographic regions in which its operations and customers are located. A breakdown in the infrastructure of a particular region could adversely impact the operating results of the Company. Corning continues to monitor closely the information about infrastructure preparedness for the Year 2000, especially in the Asian regions.

MARKET RISK DISCLOSURES

Corning operates and conducts business in many foreign countries and as a result is exposed to movements in foreign currency exchange rates. More specifically, Corning's earnings are exposed to the effects of exchange rate movements on financial instruments and transactions denominated in foreign currencies. Additionally, Corning's net equity is impacted by the conversion of the net assets of foreign subsidiaries for which the functional currency is not the U.S. Dollar for U.S. reporting purposes. Corning's most significant foreign currency exposures relate to Japan, Korea, and Western European countries. Corning selectively enters into foreign exchange forward contracts with durations generally less than 12 months to hedge its exposure to exchange rate risk on foreign source income and purchases. The hedges are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. The objective of these contracts is to neutralize the impact of exchange rate movements on Corning's operating results. Corning does not hold any derivative contracts that hedge its foreign currency denominated net asset exposures. In addition, one of Corning's subsidiaries enters into revenue sales contracts for certain of its revenues generated in foreign currencies. Such contracts are not subject to foreign currency gains or losses. Corning does not hold or issue derivative financial instruments for trading purposes.

Equity in earnings of associated companies represented 29% of Corning's income from continuing operations in 1998. Foreign-based affiliates comprised 91% of this amount. Exchange rate fluctuations and actions taken by management of these entities to reduce this risk can affect the earnings of these companies.

Corning uses sensitivity analysis to assess the market risk associated with its foreign currency exchange risk. Market risk is defined as the potential change in fair value of assets and liabilities resulting from an adverse movement in foreign currency exchange rates. At December 31, 1998, Corning and its consolidated subsidiaries had open forward contracts, foreign denominated debt and foreign cash and cash equivalent holdings with values exposed to exchange rate movements. A 10% adverse movement in quoted foreign currency exchange rates could result in a loss in fair value of these instruments of $10.2 million. The effect of a change in exchange rates on the revenue sales contracts is excluded from this analysis as any movement will be offset by a corresponding effect on the underlying revenues.

Corning's market risk exposures have not changed materially from December 31, 1997.

NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which establishes accounting and reporting standards for derivative instruments and hedging activities. FAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Corning currently enters into derivatives in the form of foreign currency hedge instruments to reduce its exposure to exchange rate risk on foreign source income and purchases. Management believes that its current foreign currency hedge instruments qualify as hedges under FAS 133. FAS 133 is effective for fiscal years beginning after June 15, 1999, and is not expected to have a material effect on Corning's financial position or results of operations.

(In millions, except share and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of all entities controlled by Corning. All significant intercompany accounts and transactions are eliminated.

The equity method of accounting is used for investments in associated companies which are not controlled by Corning and in which Corning's interest is generally between 20% and 50%.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On April 1, 1998, Corning completed the recapitalization and sale of a controlling interest in its consumer housewares business. On December 31, 1996, Corning distributed all of the shares of its Health Care Services Segment (Quest Diagnostics Incorporated and Covance Inc.), to its shareholders on a pro rata basis. Corning's consolidated financial statements and notes to consolidated financial statements report the consumer housewares business, Quest Diagnostics and Covance as discontinued operations.

FOREIGN CURRENCIES Balance sheet accounts of foreign subsidiaries are translated at current exchange rates and income statement accounts are translated at average exchange rates for the year. Translation gains and losses are accumulated in a separate component of common shareholders' equity. Foreign currency transaction gains and losses affecting cash flows are included in current earnings.

Corning enters into foreign exchange contracts primarily as hedges against identifiable foreign currency commitments. Gains and losses on contracts identified as hedges are deferred and included in the measurement of the related foreign currency transactions. Gains and losses on foreign currency contracts which are not designated as hedges of foreign currency commitments are included in current earnings.

In addition to the foreign exchange contracts described in the preceding paragraph, Corning enters into revenue sales contracts for certain of its revenues generated in foreign currencies. Such contracts, because of their terms, are not subject to foreign currency gains and losses.

CASH AND CASH EQUIVALENTS Short-term investments, comprised of repurchase agreements and debt instruments with original maturities of three months or less, are considered cash equivalents.

MARKETABLE SECURITIES Corning's marketable securities consist of equity securities classified as available-for-sale which are stated at estimated fair value based primarily upon market quotes. Unrealized gains and losses, net of tax, are computed on the basis of specific identification, and are reported as a separate component of accumulated other comprehensive income in shareholders' equity until realized. A decline in the value of any marketable security below cost that is deemed other than temporary is charged to earnings, resulting in a new cost basis for the security.

INVENTORIES Inventories are stated at the lower of cost or market. Approximately 54% and 57% of Corning's inventories at December 31, 1998, and 1997, respectively, are valued using the first-in, first-out (FIFO) method. The last-in, first-out (LIFO) method is used to value the remaining inventories, which are principally at domestic plant locations.

PROPERTY AND DEPRECIATION Land, buildings and equipment are recorded at cost. Depreciation is based on estimated useful lives of properties using straight-line and accelerated methods.

GOODWILL AND OTHER INTANGIBLE ASSETS Investment costs in excess of the fair value of net assets acquired are amortized over appropriate periods not exceeding 40 years. Other intangible assets are recorded at cost and amortized over periods generally not exceeding 15 years.

TAXES ON INCOME Corning uses the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted.

2. BUSINESS COMBINATION AND DIVESTITURES

PURCHASES

On December 1, 1998, Corning acquired the 50% interest in Optical Fibres previously owned by BICC plc. The consideration was comprised of approximately $47 million in cash and the assumption of $27 million in debt. The acquisition was recorded using the purchase method of accounting. The excess cost over the fair value of the net tangible assets acquired was approximately $38 million and is being amortized over periods of up to 20 years. Optical Fibres became a wholly owned subsidiary as a result of this transaction and the results of its operations are included in the consolidated financial statements from the date of the transaction.

In April 1997, Corning acquired 100% of the stock of Optical Corporation of America (OCA) for a total purchase price of approximately $70 million. The consideration was comprised of approximately 950,000 shares of Corning restricted stock, options and $32 million of cash. The acquisition was recorded using the purchase method of accounting. The results of operations of OCA are included in the consolidated financial statements from the date of acquisition. The excess cost over the fair value of the net tangible assets acquired was approximately $52 million and is being amortized over periods of up to 20 years.

DIVESTITURES

In the fourth quarter of 1998, Corning recorded a non-operating gain of $19.2 million ($9.7 million after tax), or $0.04 per share, related to the divestiture of several small businesses within the science products division.

In February 1997, Corning sold its Serengeti eyewear business to Solar-Mates, Inc. for approximately $28 million. In March 1996, Corning sold its equity investment in CALP S.p.A. for approximately $30 million. The gains recognized on these transactions were not material.

OTHER

In June 1998, Molecular Simulations, Inc. (MSI) merged with Pharmacopeia, Inc., a publicly traded company. Corning previously owned 35% of MSI and owns approximately 15% of the combined entity. Corning realized a non-operating gain of $20.5 million ($13.2 million after tax), or $0.06 per share, from this transaction.

In January 1996, Corning and International Technology (IT) completed a transaction whereby Corning increased its ownership in Quanterra Incorporated (Quanterra), a jointly owned company between Corning and IT, from 50% to 81% in exchange for an investment of approximately $20 million. As a result of this transaction, Corning began consolidating Quanterra's results beginning in 1996. In June 1998, Quanterra redeemed IT's remaining 19% interest for $5.7 million and became a 100% owned subsidiary of Corning.

3. INFORMATION BY OPERATING SEGMENT

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Corning's chief operating decision making group is comprised of the Chief Executive Officer and the officers who report to him directly.

Corning's reportable segments include Telecommunications, Advanced Materials and Information Display. The Telecommunications Segment produces optical fiber and cable, optical hardware and equipment and photonic components for the worldwide telecommunications industry. The Advanced Materials Segment manufactures specialized products with unique properties for customer applications utilizing glass, glass ceramic and polymer technologies. Businesses within this segment include environmental products, science products, semiconductor materials and optical and lighting products. The Information Display Segment manufactures glass panels and funnels for televisions and CRTs, and projection video lens assemblies and liquid crystal display glass for flat panel displays.

Corning evaluates performance based on an after tax profit measure, which is identified as segment net income. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The financial results for Corning's three operating segments have been prepared on a basis which is consistent with the manner in which Corning management internally disaggregates financial information for the purposes of assisting in making internal operating decisions. In this regard, certain common expenses have been allocated among segments less precisely than would be required for stand alone financial information prepared in accordance with generally accepted accounting principles. Revenue attributed to geographic areas is based on the location of the customer.

OPERATING SEGMENTS	Telecommunications	Advanced Materials	Information Display	Total Segments
1998				
NET SALES	**$1,791.7**	**$1,020.1**	**$ 644.7**	**$3,456.5**
Depreciation and amortization (1)	143.5	78.8	74.5	296.8
Research, development and engineering expenses (2)	190.2	80.0	23.7	293.9
Interest income (3)	9.5	3.2	1.1	13.8
Interest expense (4)	29.7	16.7	10.0	56.4
Income tax expense	101.4	38.4	8.2	148.0
SEGMENTS EARNINGS BEFORE MINORITY INTEREST AND EQUITY EARNINGS (5)	**221.9**	**75.9**	**39.2**	**337.0**
Minority interest in earnings of subsidiaries	(37.3)	0.3	(27.6)	(64.6)
Equity in earnings of associated companies	20.7	17.6	44.9	83.2
SEGMENT NET INCOME	**205.3**	**93.8**	**56.5**	**355.6**
Investment in associated companies, at equity	25.8	42.0	190.4	258.2
Segment assets (6)	1,887.1	837.7	915.1	3,639.9
Capital expenditures	260.0	131.0	53.0	444.0
1997				
NET SALES	**$1,795.3**	**$1,030.4**	**$ 664.2**	**$3,489.9**
Depreciation and amortization (1)	130.7	82.0	71.8	284.5
Research, development and engineering expenses (2)	117.1	63.6	69.6	250.3
Interest income (3)	3.6	2.5	1.0	7.1
Interest expense (4)	34.3	23.5	13.8	71.6
Income tax expense	163.9	50.8	(8.6)	206.1
SEGMENTS EARNINGS BEFORE MINORITY INTEREST AND EQUITY EARNINGS (5)	**307.3**	**89.8**	**16.4**	**413.5**
Minority interest in earnings of subsidiaries	(46.0)	0.7	(31.0)	(76.3)
Equity in earnings of associated companies	36.2	13.1	21.7	71.0
SEGMENT NET INCOME	**297.5**	**103.6**	**7.1**	**408.2**
Investment in associated companies, at equity	62.8	35.3	142.2	240.3
Segment assets (6)	1,599.2	762.6	841.4	3,203.2
Capital expenditures	336.0	117.0	119.0	572.0
1996				
NET SALES	**$1,397.7**	**$1,031.4**	**$ 565.5**	**$2,994.6**
Depreciation and amortization (1)	104.7	65.0	81.0	250.7
Research, development and engineering expenses (2)	83.2	52.3	53.7	189.2
Interest income (3)	2.6	2.5	1.8	6.9
Interest expense (4)	24.4	21.8	10.6	56.8
Income tax expense	130.6	33.0	(13.8)	149.8
SEGMENTS EARNINGS BEFORE MINORITY INTEREST AND EQUITY EARNINGS (5)	**247.6**	**63.5**	**(10.0)**	**301.1**
Minority interest in earnings of subsidiaries	(38.1)	3.0	(17.4)	(52.5)
Equity in earnings of associated companies	44.9	8.8	22.6	76.3
SEGMENT NET INCOME	**254.4**	**75.3**	**(4.8)**	**324.9**
Investment in associated companies, at equity	53.4	27.7	163.0	244.1
Segment assets (6)	1,227.9	631.5	789.4	2,648.8
Capital expenditures	209.0	85.6	170.0	464.6

(1) Includes an allocation of depreciation of corporate property, plant and equipment not specifically identifiable to a segment. Related depreciable assets are not allocated to segment assets.
(2) Non-direct research, development and engineering expenses are allocated based upon direct project spending for each segment.
(3) Interest income is allocated to segments based on a percentage of segment net operating assets.
(4) Interest expense is allocated to segments based on a percentage of segment net operating assets. Consolidated subsidiaries with independent capital structures do not receive additional allocations of interest expense.
(5) Many of Corning's administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal, are allocated to segments, primarily as a percentage of sales.
(6) Includes inventory, accounts receivable, plant, property and equipment, investments in associated equity companies and goodwill specifically identifiable to segments.

3. INFORMATION BY OPERATING SEGMENT (CONTINUED)

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements is as follows:

	1998	1997	1996
REVENUES			
Total segment net sales	$3,456.5	$3,489.9	$2,994.6
Non-segment net sales (1)	27.5	26.9	29.4
Royalty, interest and dividend income	48.4	37.5	29.7
Non-operating gains	39.7		
Total revenues	$3,572.1	$3,554.3	$3,053.7
NET INCOME			
Total segment net income (2)	$ 355.6	$ 408.2	$ 324.9
Unallocated items:			
Non-segment income (1)	39.5	10.0	5.3
Provision for restructuring (3)	(84.6)		
Minority interest	3.7		
Interest expense	(0.3)	(0.4)	(0.4)
Income tax	15.2	(3.4)	(1.6)
Equity in earnings of associated companies (1)	12.1	8.2	8.8
Dividends on convertible preferred securities of subsidiary	(13.7)	(13.7)	(13.7)
Net income from continuing operations	$ 327.5	$ 408.9	$ 323.3
ASSETS			
Total segment assets	$3,639.9	$3,203.2	$2,648.8
Non-segment assets:			
Net assets of discontinued operations		357.6	364.0
Property, plant and equipment (4)	624.7	523.2	442.4
Investments (5)	108.1	69.7	93.1
Other current assets (6)	310.7	263.1	380.6
Remaining corporate assets (7)	298.5	275.1	254.5
Total consolidated assets	$4,981.9	$4,691.9	$4,183.4

(1) Includes amounts derived from corporate investments. Non-segment net income includes non-operating gains in 1998.
(2) Includes royalty, interest and dividend income.
(3) See Footnote 8 to the consolidated financial statements for further discussion of this charge. The portion of this charge related to Telecommunications, Advanced Materials and Information Display Segments was $8.3 million, $26.9 million, and $16.3 million, respectively. The remainder pertains to corporate functions.
(4) Represents corporate property, plant and equipment not specifically identifiable to a segment.
(5) Represents corporate investments in associated companies, at equity.
(6) Includes current corporate assets, primarily cash, short-term investments and deferred taxes.
(7) Includes non-current corporate assets, primarily pension assets and deferred taxes.

OTHER SIGNIFICANT ITEMS	Segment Total	Reconciling Adjustments	Consolidated Total
1998			
Depreciation and amortization	$296.8	$ 1.2	$298.0
Interest expense	56.4	0.3	56.7
Income taxes	148.0	(15.2)	132.8
Equity in earnings of associated companies	83.2	12.1	95.3
Minority interest	(64.6)	3.7	(60.9)
Investment in associated companies, at equity	258.2	54.9	313.1
Capital expenditures	444.0	269.6(1)	713.6
1997			
Depreciation and amortization	$284.5	$ 1.4	$285.9
Interest expense	71.6	0.4	72.0
Income taxes	206.1	3.4	209.5
Equity in earnings of associated companies	71.0	8.2	79.2
Investment in associated companies, at equity	240.3	52.6	292.9
Capital expenditures	572.0	173.6(1)	745.6
1996			
Depreciation and amortization	$250.7	$ 1.6	$252.3
Interest expense	56.8	0.4	57.2
Income taxes	149.8	1.6	151.4
Equity in earnings of associated companies	76.3	8.8	85.1
Investment in associated companies, at equity	244.1	69.7	313.8
Capital expenditures	464.6	95.6(1)	560.2

(1) Includes capital spending on shared research facilities of $166.0 million, $82.4 million and $19.0 million in 1998, 1997 and 1996, respectively.

Information concerning principal geographic areas is as follows:

	1998		1997		1996	
	Net Sales	Non-Current Assets(1)	Net Sales	Non-Current Assets(1)	Net Sales	Non-Current Assets(1)
North America						
United States	$2,257.4	$2.877.5	$2.206.8	$2,436.8	$2,020.8	$1,950.2
Canada	301.7	89.9	246.8	90.8	120.7	96.6
Other	37.0	43.3	37.9	25.9	46.1	15.9
Total North America	2,596.1	3,010.7	2.491.5	2.553.5	2.187.6	2.062.7
Asia Pacific						
Japan	308.8	109.6	360.4	103.4	271.6	118.7
China	74.6	0.9	119.6	1.0	53.4	0.5
Korea	24.0	195.2	29.5	135.9	31.7	159.3
Other	35.5	15.1	42.0	16.0	39.0	14.8
Total Asia Pacific	442.9	320.8	551.5	256.3	395.7	293.3
Europe						
Germany	117.6	49.0	101.8	45.9	88.7	53.4
France	72.6	75.8	85.0	58.8	76.5	50.4
United Kingdom	73.8	76.0	66.0	60.0	72.9	55.4
Other	109.3	22.5	100.3	26.8	106.0	22.2
Total Europe	373.3	223.3	353.1	191.5	344.1	181.4
Latin America						
Brazil	29.9	10.4	74.1	11.7	41.3	12.1
Other	10.9		18.4	0.4	11.7	0.4
Total Latin America	40.8	10.4	92.5	12.1	53.0	12.5
All Other	30.9	22.0	28.2	8.5	43.6	8.5
Total	$3,484.0	$3,587.2	$3.516.8	$3.021.9	$3.024.0	$2.558.4

(1) Excludes net assets of discontinued operations of $357.6 million and $364.0 million in 1997 and 1996, respectively, and deferred taxes of $84.4 million, $113.3 million and $83.6 million in 1998, 1997 and 1996, respectively.

4. INVESTMENTS

ASSOCIATED COMPANIES AT EQUITY, OTHER THAN DOW CORNING CORPORATION

Samsung Corning Company Ltd., a 50% owned South Korea-based manufacturer of glass panels and funnels for television and display monitors, represented $174.4 million and $134.1 million of Corning's investments accounted for by the equity method at year end 1998 and 1997, respectively.

The financial position and results of operations of Samsung Corning and Corning's other equity companies are summarized as follows:

	1998		1997		1996	
	Samsung Corning Co. Ltd.	Total Equity Companies	Samsung Corning Co. Ltd.	Total Equity Companies	Samsung Corning Co. Ltd.	Total Equity Companies
Net sales	$ 884.1	$1,652.9	$ 997.4	$1,808.1	$ 794.9	$1,593.3
Gross profit	239.6	571.7	265.8	637.9	192.8	554.7
Net income	77.8	224.8	63.6	177.7	54.6	208.3
Corning's equity in net income (1)	$ 38.4	$ 95.3	$ 31.1	$ 79.2	$ 26.4	$ 85.1
Current assets	$ 362.6	$ 647.8	$ 371.9	$ 775.4	$ 328.1	$ 661.3
Non-current assets	1,022.7	1,320.2	934.4	1,311.9	1,415.0	1,826.3
Current liabilities	$ 369.7	$ 532.9	$ 291.0	$ 537.0	$ 446.3	$ 647.6
Non-current liabilities	657.3	757.3	717.1	884.5	979.1	1,132.8

(1) Equity in earnings shown above and in the Consolidated Statements of Income are net of amounts recorded for income tax.

Dividends received from Samsung Corning and Corning's other equity companies totaled $63.3 million, $65.3 million and $88.2 million in 1998, 1997 and 1996, respectively. At December 31, 1998, approximately $262.4 million of equity in undistributed earnings of equity companies were included in Corning's retained earnings.

DOW CORNING CORPORATION

Corning is a 50% owner of Dow Corning Corporation (Dow Corning), a manufacturer of silicones. The other 50% of Dow Corning is owned by The Dow Chemical Company (Dow Chemical).

On May 15, 1995, Dow Corning voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code as a result of several negative developments related to the breast implant litigation. At that time, Corning management believed it was impossible to predict if and when Dow Corning would successfully emerge from Chapter 11 proceedings. As a result, Corning recorded an after-tax charge of $365.5 million to fully reserve its investment in Dow Corning and discontinued recognition of equity earnings from Dow Corning in 1995.

Dow Corning and the Committee of Tort Claimants, one of Dow Corning's Chapter 11 creditor committees, filed with the United States Bankruptcy Court (the Bankruptcy Court) a joint plan of reorganization on November 9, 1998 (the Joint Plan). After hearings held in early 1999, the Bankruptcy Court ruled in early February 1999 that the disclosure statement related to the Joint Plan was adequate to send to Dow Corning's creditors for consideration. In that ruling, the Bankruptcy Court indicated that the period for voting will extend through May 14, 1999 and hearings to confirm the Joint Plan are scheduled to begin on June 28, 1999. To become effective, the Joint Plan will require a favorable vote by many classes of creditors and final Bankruptcy Court approval after confirmation hearings. In addition, appeals of the Bankruptcy Court's confirmation order are possible. The recent developments, including the support of the Committee of Tort Claimants, tend to increase the probability that Dow Corning will successfully emerge from Chapter 11 proceedings, but the timing and the eventual outcome of these proceedings is uncertain.

If and when Dow Corning emerges from bankruptcy, Corning will likely begin to recognize equity earnings from Dow Corning. Corning does not expect to receive dividends from Dow Corning in the foreseeable future. As part of the Joint Plan, Corning and Dow Chemical have each agreed to provide a credit facility to Dow Corning of up to $150 million ($300 million in the aggregate), subject to the terms and conditions stated in the Joint Plan.

The financial position and results of operations of Dow Corning are summarized in the table below. The 1998 amounts are derived from Dow Corning's unaudited financial information and do not include the impact of charges, if any, which Dow Corning may take currently or in the future to reflect any additional financial impact of the Joint Plan. The amount of any such charge could have a material effect on Dow Corning's financial position and results of operations in the period or periods recorded.

	1998	1997	1996
Net sales	$2,568.0	$2,643.5	$2,532.3
Gross profit	796.1	847.6	858.3
Net income	206.7	237.6	221.7
Current assets	$1,355.2	$1,378.8	$1,524.7
Non-current assets	4,294.0	3,939.9	3,589.4
Current liabilities	$ 527.3	$ 489.8	$ 480.5
Non-current liabilities	391.3	361.5	343.2
Liabilities subject to compromise (1)	3,492.6	3,441.1	3,452.1
Shareholders' equity	1,237.0	1,026.3	838.3

(1) Dow Corning's financial statements for 1998, 1997 and 1996 have been prepared in conformity with the American Institute of Certified Public Accountants' Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," (SOP 90-7). SOP 90-7 requires a segregation of liabilities subject to compromise by the Bankruptcy Court as of the filing date (May 15, 1995) and identification of all transactions and events that are directly associated with the reorganization.

Dow Corning's 1998, 1997 and 1996 results have also been impacted by the suspension of interest payments and reorganization costs resulting from the Chapter 11 proceedings.

OTHER INVESTMENTS

Corning's other investments include equity securities, which are classified as available-for-sale. At December 31, 1998, the fair value and cost of Corning's equity securities was $53.1 million and $54.7 million, respectively. The difference includes gross unrealized gains of $0.3 million and gross unrealized losses of $1.9 million. The fair value of Corning's equity securities was $17.1 million at December 31, 1997 and approximated cost.

Proceeds from sales of marketable securities were $5.0 million and $17.4 million in 1998 and 1997, respectively, and related net realized gains included in income were $0.3 million and $11.4 million in 1998 and 1997, respectively. The net change in the unrealized loss on marketable securities classified as available-for-sale included as a component of accumulated other comprehensive income was $1.6 million for the year ended December 31, 1998.

5. EMPLOYEE RETIREMENT PLANS

Corning has defined benefit pension plans covering certain domestic employees and employees in foreign countries. Corning's funding policy has been to contribute as necessary an amount determined jointly by Corning and its consulting actuaries, which provides for the current cost and amortization of prior service cost. Corning and certain of its domestic subsidiaries also offer defined benefit postretirement plans that provide health care and life insurance benefits for retirees and eligible dependents. Certain employees may become eligible for such postretirement benefits upon reaching retirement age. Corning's principal retiree medical plans require retiree contributions each year equal to the excess of medical cost increases over general inflation rates.

The change in benefit obligation and funded status of Corning's employee retirement plans are as follows:

	Pension Benefits		*Postretirement Benefits*	
	1998	1997	1998	1997
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$(1,246.0)	$(1,213.8)	$(520.7)	$(521.1)
Service cost	(22.4)	(19.1)	(9.6)	(8.4)
Interest cost	(95.0)	(88.1)	(40.2)	(37.0)
Plan participants' contribution	(2.5)	(2.0)	(1.5)	(1.4)
Amendments	(17.7)	(2.7)	(1.3)	
Curtailments	(21.9)		(8.7)	
Gain/(loss) from changes in actuarial assumptions	(166.9)	(16.9)	(44.1)	17.2
Experience loss	(43.2)		(42.0)	
Benefits paid	98.4	96.6	35.8	30.0
Benefit obligation at end of year	$(1,517.2)	$(1,246.0)	$(632.3)	$(520.7)
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 1,443.4	$ 1,332.2	$ –	$ –
Actual return on plan assets	125.0	183.3		
Employer contribution	23.7	22.5	34.3	28.6
Plan participants' contributions	2.5	2.0	1.5	1.4
Benefits paid	(98.4)	(96.6)	(35.8)	(30.0)
Fair value of plan assets at end of year	$ 1,496.2	$ 1,443.4	$ –	$ –
Funded status	$ (21.0)	$ 197.4	$(632.3)	$(520.7)
Unrecognized transition amount	(3.1)	(10.0)		
Unrecognized prior service cost	109.8	121.4	(4.7)	(10.9)
Unrecognized net (gains)/losses from changes in actuarial assumptions	5.7	(203.3)	39.1	(33.2)
Recognized asset (liability)	$ 91.4	$ 105.5	$(597.9)	$(564.8)
Less current portion			38.1	31.0
Accrued postretirement liability			$(559.8)	$(533.8)

Defined benefit pension plan assets are comprised principally of publicly traded debt and equity securities. Corning common stock represented 3.5% and 3.1% of plan assets at year end 1998 and 1997, respectively. Corning has not funded its postretirement obligations.

The weighted-average assumptions for Corning's employee retirement plans are as follows:

	Pension Benefits		Postretirement Benefits	
	1998	1997	1998	1997
Discount rate	6.5%	7.5%	6.5%	7.5%
Expected return on plan assets	9.0%	9.0%		
Rate of compensation increase	4.0%	4.5%		

Corning's consolidated postretirement benefit obligation is determined by application of the terms of health care and life insurance plans, together with relevant actuarial assumptions and health care cost trend rates. The health care cost trend rate for Corning's principal plan is assumed to be 8% in 1998 for covered individuals under age 65 decreasing gradually to 4.5% in 2010 and thereafter. For covered individuals over 65, the rate is assumed to be 7% in 1998 decreasing gradually to 4.5% in 2010 and thereafter.

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in 1998 assumed health care trend rates would have the following effects:

	1-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 3.7	$ (3.4)
Effect on postretirement benefit obligation	47.8	(43.7)

The components of net periodic benefit cost for Corning's employee retirement plans are as follows:

	Pension Benefits			Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost	$ 22.4	$ 19.1	$ 17.4	$ 9.6	$ 8.4	$ 8.5
Interest cost	95.0	88.1	84.2	40.2	37.0	37.0
Expected return on plan assets	(118.3)	(107.7)	(99.8)			
Amortization of transition asset	(0.6)	(0.7)	(0.8)		(0.2)	0.2
Amortization of net gain	1.8	3.8	1.7			
Amortization of prior service cost	13.1	11.7	10.5	(1.1)	(1.6)	(1.4)
Net periodic benefit cost	13.4	14.3	13.2	48.7	43.6	44.3
Recognition of curtailment and settlement (1)	14.2			0.5		
Recognition of special termination benefits (2)	7.5					
Total cost	$ 35.1	$ 14.3	$ 13.2	$49.2	$43.6	$44.3

(1) Included in the gain on sale of the consumer housewares business, which is recorded in income from discontinued operations.
(2) Included in the provision for restructuring.

Measurement of postretirement benefit expense is based on assumptions used to value the postretirement liability at the beginning of the year. Total consolidated pension expense, including defined contribution pension plans, was $49.3 million in 1998, $44.9 million in 1997 and $41.7 million in 1996.

6. TAXES ON INCOME

	1998	1997	1996
Income from continuing operations before taxes on income:			
U.S. companies	$340.1	$545.1	$381.7
Non-U.S. companies	99.5	84.1	74.1
Income before taxes on income	$439.6	$629.2	$455.8
Taxes on income from continuing operations	$132.8	$209.5	$151.4
Effective tax rate reconciliation:			
Statutory U.S. tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.7	1.6	1.3
Foreign and other tax credits	(0.8)	(0.6)	(0.5)
Lower taxes on subsidiary earnings	(6.1)	(2.7)	(2.6)
Other	1.4		
Effective tax rate	30.2%	33.3%	33.2%
Components of net tax expense:			
Taxes on income from continuing operations	$132.8	$209.5	$151.4
Taxes on equity in earnings	19.3	13.8	15.1
Tax benefits included in common shareholders' equity	(21.4)	(18.8)	(17.0)
Net tax expense before discontinued operations	130.7	204.5	149.5
Income tax expense from discontinued operations	76.6	17.7	19.6
Net tax expense	$207.3	$222.2	$169.1
Current and deferred tax expense (benefit) before discontinued operations:			
Current:			
U.S.	$ 69.7	$139.1	$ 64.1
State and municipal	8.0	20.1	11.0
Foreign	57.0	55.6	49.3
Deferred:			
U.S.	(4.1)	(11.2)	14.3
State and municipal	(1.3)	(4.2)	6.9
Foreign	1.4	5.1	3.9
Net tax expense before discontinued operations	$130.7	$204.5	$149.5

6. TAXES ON INCOME (CONTINUED)

The tax effects of temporary differences and carryforwards that gave rise to significant portions of the deferred tax assets and liabilities as of year end are comprised of the following:

	1998	1997
Postretirement medical and life benefits	$ 235.0	$ 230.1
Other employee benefits	46.0	49.0
Other accrued liabilities	27.6	11.5
Restructuring reserves	25.2	
Loss and tax credit carryforwards	50.6	44.5
Other	31.4	36.3
Gross deferred tax assets	415.8	371.4
Deferred tax assets valuation allowance	(33.8)	(22.0)
Deferred tax assets	382.0	349.4
Fixed assets	(136.7)	(107.3)
Pensions	(35.3)	(40.5)
Other	(19.4)	(20.9)
Deferred tax liabilities	(191.4)	(168.7)
Net deferred tax assets	$ 190.6	$ 180.7

The net change in the total valuation allowance for the years ended December 31, 1998, and 1997, was an increase of $11.8 million and $9.5 million, respectively.

Corning currently provides income taxes on the earnings of foreign subsidiaries and associated companies to the extent they are currently taxable or expected to be remitted. Taxes have not been provided on $494.5 million of accumulated foreign unremitted earnings which are expected to remain invested indefinitely. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings; however, if these earnings were remitted, income taxes payable would be provided at a rate which is significantly lower than the effective tax rate.

Corning, as required, provided for tax on undistributed earnings of its domestic subsidiaries and affiliated companies beginning in 1993 even though these earnings have been and will continue to be reinvested indefinitely. Corning estimates that $34.9 million of tax would be payable on pre-1993 undistributed earnings of its domestic subsidiaries and affiliated companies should the unremitted earnings reverse and become taxable to Corning. Corning expects these earnings to be reinvested indefinitely.

Total payments for taxes on income were $184.3 million, $209.4 million and $120.1 million during 1998, 1997 and 1996, respectively. Deferred income tax benefits totaling $106.2 million and $67.4 million were included in other current assets at year end 1998 and 1997, respectively. At December 31, 1998, Corning had tax benefits attributable to loss carryforwards and credits aggregating $50.6 million that expire at various dates through 2013.

7. SUPPLEMENTAL INCOME STATEMENT DATA

	1998	1997	1996
Depreciation expense	$278.2	$265.4	$235.4
Amortization of goodwill and other intangible assets	19.8	20.5	16.9
Depreciation and amortization expense	$298.0	$285.9	$252.3
Rental expense	$ 54.0	$ 47.6	$ 36.5
Interest expense incurred	$103.5	$ 96.7	$ 73.6
Interest capitalized	(46.8)	(24.7)	(16.4)
Interest expense, net	$ 56.7	$ 72.0	$ 57.2
Interest paid	$103.8	$111.1	$113.6

Consolidated interest expense allocated to discontinued operations totaled $2.7 million, $13.0 million and $63.5 million in 1998, 1997 and 1996, respectively. The allocations were based on the ratio of net assets of discontinued operations to consolidated net assets.

8. PROVISION FOR RESTRUCTURING

In the second quarter of 1998, Corning recorded a restructuring charge of $84.6 million ($49.2 million after tax and minority interest). The charge is comprised of early retirement incentives and severance costs. The restructuring charge relates to approximately 650 employees, of which 610 have been terminated or notified of their termination at December 31, 1998. Corning anticipates that the workforce reductions will be substantially completed in the first half of 1999. As of December 31, 1998, $23.3 million of the restructuring and severance related costs have been paid.

9. SUPPLEMENTAL BALANCE SHEET DATA

	1998	1997
INVENTORIES		
Finished goods	$ 205.6	$ 193.5
Work in process	104.9	107.3
Raw materials and accessories	96.7	84.3
Supplies and packing materials	70.6	64.0
Total inventories valued at current cost	477.8	449.1
Reduction to LIFO valuation	(19.1)	(20.8)
Inventories	$ 458.7	$ 428.3
PLANT AND EQUIPMENT		
Land	$ 57.3	$ 51.4
Buildings	944.1	842.6
Equipment	3,677.4	3,107.2
	4,678.8	4,001.2
Accumulated depreciation	(1,993.9)	(1,733.3)
Plant and equipment, net	$ 2,684.9	$ 2,267.9
OTHER ACCRUED LIABILITIES		
Taxes on income	$ 159.7	$ 112.9
Restructuring reserves	61.3	
Wages and employee benefits	157.0	180.0
Other liabilities	200.4	151.8
Other accrued liabilities	$ 578.4	$ 444.7

10. LOANS PAYABLE

	1998	1997
LOANS PAYABLE		
Current maturities of loans payable beyond one year	$ 134.8	$ 45.8
Other short-term borrowings	69.8	167.2
	$ 204.6	$ 213.0
LOANS PAYABLE BEYOND ONE YEAR		
Notes, 7.78%, due 1998		$ 6.9
Notes, 8.75%, due 1999	$ 100.0	99.9
Series A senior notes, 7.99%, due 1999	12.0	24.0
Series B senior notes, 8.4%, due 2002	28.5	35.7
Debentures, 8.25%, due 2002	75.0	75.0
Debentures, 6%, due 2003	99.6	99.5
Debentures, 7% due 2007, net of unamortized discount of $37.1 million in 1998 and $39.3 million in 1997	62.9	60.7
Notes, 6.73%, due 2008	36.4	40.0
Notes, 6.83%, due 2009	30.0	30.0
Debentures, 6.75%, due 2013	99.6	99.5
Debentures, 8.875%, due 2016	74.5	74.5
Debentures, 8.875%, due 2021	74.9	74.9
Debentures, 7.625%, putable in 2004, due 2024	99.7	99.7
Medium-term notes, average rate 7.8%, due through 2025	265.0	265.0
Other, average rate 5.0%, due through 2031	75.0	86.3
	1,133.1	1,171.6
Less current maturities	134.8	45.8
	$ 998.3	$1,125.8

At December 31, 1998 and 1997, the weighted-average interest rate on short-term borrowings was 5.2% and 6.6%, respectively.

At December 31, 1998, loans payable beyond one year become payable:

2000	2001	2002	2003	2004-2025
$31.7	$43.8	$94.1	$181.9	$646.8

Based on borrowing rates currently available to Corning for loans with similar terms and maturities, the fair value of loans payable beyond one year was $1.3 billion at year end 1998.

Unused bank revolving credit agreements in effect at December 31, 1998 provide for Corning to borrow up to $825 million. The revolving credit agreements provide for borrowing of U.S. dollars and Eurocurrency at various rates. Corning also has the ability to issue up to $375 million of medium and long-term debt through public offerings under existing shelf-registration statements filed with the Securities and Exchange Commission.

11. CONVERTIBLE MONTHLY INCOME PREFERRED SECURITIES

In July 1994, Corning and Corning Delaware L.P., a special purpose limited partnership in which Corning is the sole general partner, completed a public offering of 7.5 million shares of Convertible Monthly Income Preferred Securities (MIPS). The MIPS were guaranteed by Corning and convertible into Corning common stock at the rate of 1.534 shares of Corning common stock for each MIPS. On February 16, 1999, Corning Delaware issued a notice to all MIPS holders calling for the redemption of all MIPS. Holders of the MIPS have the option of either receiving $51.80 in cash for each share, or converting them into Corning common stock, which had a fair market value after conversion of $74.88 per share on February 16, 1999. Management expects that a majority of the MIPS holders will convert their preferred securities into Corning common stock.

Based on quoted market prices at December 31, 1998, the fair value of the preferred securities approximated $523 million.

12. CONVERTIBLE PREFERRED STOCK

Corning has 10 million authorized shares of Series Preferred Stock, par value $100 per share. Of the authorized shares, 2.4 million shares have been designated Series A Junior Participating Preferred Stock of which no shares have been issued.

At year end 1998, 1997 and 1996, 178,700, 198,100 and 222,000 shares of Series B Convertible Preferred Stock were outstanding, respectively. Each Series B share is convertible into 4.79 shares of Corning common stock and has voting rights equivalent to four common shares. The Series B shares were sold exclusively to the trustee of Corning's existing employee investment plans, based upon directions from plan participants. Participants may cause Corning to redeem the shares at 100% of par upon reaching age 55 or later, retirement, termination of employment or in certain cases of financial hardship. The Series B shares are redeemable by Corning at $100 per share.

13. COMMON SHAREHOLDERS' EQUITY

Corning has established the Corning Stock Ownership Trust (CSOT) to fund future employee purchases of common stock through its contributions to Corning's Investment and Employee Stock Purchase Plans (the Plans). Corning sold 4 million treasury shares to the CSOT. At December 31, 1998, 1.9 million shares remained in the CSOT. Shares held by the CSOT are not considered outstanding for earnings per common share calculations until released to the Plans. Corning and the trustee of the CSOT reached an agreement whereby the trustee waived its right to receive the Distribution of Quest Diagnostics and Covance and, in lieu thereof, received 400,000 additional shares of Corning common stock.

Corning repurchased approximately 2.0 million, 1.1 million and 2.2 million shares of its common stock in 1998, 1997 and 1996, respectively. All of the 1998, 1997 and approximately 1.3 million of the 1996 shares were repurchased pursuant to a systematic plan authorized by the Board of Directors. Corning's systematic plan is designed to provide shares for Corning's various employee benefit programs. The remainder of the 1996 stock repurchases were from employees to satisfy tax withholding requirements on shares issued under employee benefit plans.

In June 1996, the Board of Directors approved the renewal of the Preferred Share Purchase Right Plan which entitles shareholders to purchase one-hundredth of a share of Series A Junior Participating Preferred Stock upon the occurrence of certain events. In addition, the rights entitle shareholders to purchase shares of common stock at a 50% discount in the event a person or group acquires 20% or more of Corning's outstanding common stock. The preferred share purchase rights became effective July 15, 1996 and expire July 15, 2006.

Accumulated other comprehensive income at December 31, 1998 included unrealized losses on marketable securities of $1.0 million, net of tax of $0.6 million, and foreign currency translation adjustments of $8.9 million. At December 31, 1996 and 1997, accumulated other comprehensive income included foreign currency translation adjustments of $43.6 million and $32.2 million respectively.

14. EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income, less dividends on Series B convertible preferred stock, by the weighted-average number of common shares outstanding during each period. Diluted earnings per share is computed by dividing net income, plus dividends on convertible preferred securities of subsidiary, by the weighted-average number of common shares outstanding during the period after giving effect to dilutive stock options and adjusted for dilutive common shares assumed to be issued on conversion of Corning's convertible securities.

A reconciliation of the basic and diluted earnings per share from continuing operations computations for 1998, 1997 and 1996 are as follows:

	For the Years Ended December 31,								
	1998			1997			1996		
	Income	Weighted-Average Shares (in millions)	Per Share Amount	Income	Weighted-Average Shares (in millions)	Per Share Amount	Income	Weighted-Average Shares (in millions)	Per Share Amount
Net income from continuing operations	$327.5			$408.9			$323.3		
Less: Preferred stock dividends	(1.5)			(1.6)			(1.9)		
BASIC EARNINGS PER SHARE	326.0	229.6	$1.42	407.3	228.1	$1.79	321.4	227.1	$1.42
EFFECT OF DILUTIVE SECURITIES									
Options		2.8			4.8			2.8	
Convertible preferred securities of subsidiary	13.7	11.5		13.7	11.5		13.7	9.6	
Convertible preferred stock				1.6	1.0				
DILUTED EARNINGS PER SHARE	$339.7	243.9	$1.39	$422.6	245.4	$1.72	$335.1	239.5	$1.40

In January 1997, the conversion rate of the convertible monthly income preferred shares was increased to recognize the effect of the Distributions of Quest Diagnostics and Covance.

At December 31, 1998 and December 31, 1996, 178,700 and 222,000 shares of Series B Convertible Preferred Stock were outstanding, respectively. Each Series B share is convertible into 4.79 shares of Corning common stock. These shares were not included in the calculation of diluted earnings per share due to the anti-dilutive effect they would have had on earnings per share if converted.

15. STOCK COMPENSATION PLANS

At December 31, 1998, Corning's stock compensation plan includes the 1998 Employee Equity Participation Program, which covers 8.0 million shares. The 1998 Program and predecessor plans provide the authorization for Corning's common stock plans discussed below. No future awards or grants may be made under the predecessor plans except for currently outstanding rights. At December 31, 1998, 5.9 million shares were available for sale or grant under the 1998 Program. Proceeds from the sale of stock under the 1998 Program and predecessor plans are added to capital stock accounts.

In October 1995, the Financial Accounting Standards Board issued Statement No. 123 "Accounting for Stock-Based Compensation" (FAS 123). This statement defines a fair value-based method of accounting for employee stock options and similar equity investments and encourages adoption of that method of accounting for employee stock compensation plans. However, it also allows entities to continue to measure compensation cost for employee stock compensation plans using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Corning applies APB 25 accounting for its stock-based compensation plans. Compensation expense is recorded for awards of shares or share rights over the period earned. This plan resulted in compensation expense of $4.6 million in 1998, $29.2 million in 1997 and $27.6 million in 1996.

Corning has adopted the disclosure-only provisions of FAS 123. If Corning had elected to recognize compensation expense under FAS 123, Corning's net income in 1998, 1997 and 1996 would have decreased by $9.0 million, $5.3 million and $2.0 million, respectively. Corning's diluted earnings per share amounts would have decreased by $0.04 in 1998 and $0.02 in 1997. Earnings per share amounts in 1996 would not have been affected.

The pro forma effect on net income for 1997 and 1996 may not be representative of the pro forma effect on net income of future years because the FAS 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to January 1, 1995.

STOCK OPTION PLAN

Non-qualified and incentive stock options to purchase unissued or treasury shares at the market price on the grant date generally become exercisable in installments from one to five years from the grant date. The maximum term of non-qualified and incentive stock options is 10 years from the grant date.

Transactions for the three years ended December 31, 1998 were:

	Number of Shares (in thousands)	Weighted-Average Exercise Price
Options outstanding January 1, 1996	11,777	$27.90
Options granted under Plan	763	34.54
Options exercised	(1,147)	13.52
Options terminated	(1,022)	31.40
Adjustment due to Distributions	908	
Options outstanding January 1, 1997	11,279	$24.26
Options granted under Plan	929	41.10
Options exercised	(2,114)	15.82
Options terminated	(152)	25.93
Options outstanding January 1, 1998	9,942	$26.83
Options granted under Plan	2,745	30.66
Options exercised	(888)	19.30
Options terminated	(112)	32.67
Options outstanding December 31, 1998	11,687	$28.25

At the end of 1996, the number and exercise price of all options outstanding were adjusted for the Distributions of Quest Diagnostics and Covance. This adjustment increased the number of options outstanding by approximately 908,000 and decreased the exercise price of the options by approximately 18%.

For purposes of FAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996, respectively: risk-free interest rate of 4.4%, 6.4% and 6.6%; dividend yield of 1.7%, 1.6% and 2.3%; expected volatility of 29.0%, 25.0% and 24.5% and expected life of 6, 6 and 7 years.

The number of options exercisable and the corresponding weighted-average exercise price was 5.8 million and $26.83 in 1998, 5.3 million and $24.73 in 1997 and 6.5 million and $23.11 in 1996. The weighted-average fair value of options granted was $9.31 in 1998, $14.45 in 1997 and $10.77 in 1996.

15. STOCK COMPENSATION PLANS (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 1998 (in thousands)	Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable at December 31, 1998 (in thousands)	Weighted-Average Exercise Price
$ 3.49 to 25.28	2,119	3.5	$19.69	2,119	$19.69
$26.04 to 26.87	3,494	6.6	$26.15	921	$26.33
$28.02 to 32.14	3,284	8.4	$28.54	1,064	$29.37
$32.30 to 64.38	2,790	5.9	$37.03	1,647	$34.65
	11,687	6.4	$28.25	5,751	$26.83

INCENTIVE STOCK PLANS

The Incentive Stock Plan permits stock grants, either determined by specific performance goals or issued directly, in most instances, subject to the possibility of forfeiture and without cash consideration.

In 1998, 1997 and 1996, grants of 698,000, 999,000 and 340,000 shares, respectively, were made under this plan. In connection with the 1996 Distributions, approximately 280,000 additional shares were issued to employees in lieu of receiving the Distributions and approximately 180,000 shares were forfeited by employees of the Distributed companies. At December 31, 1998, there were no outstanding incentive rights. The weighted-average exercise price of the grants was $33.52 in 1998, $40.07 in 1997 and $32.61 in 1996, respectively. A total of 2.8 million shares issued in prior years remain subject to forfeiture at December 31, 1998.

WORLDWIDE EMPLOYEE SHARE PURCHASE PLAN

In addition to the Stock Option Plan and Incentive Stock Plans, Corning has a Worldwide Employee Share Purchase Plan (WESPP). Under the WESPP, substantially all employees can elect to have up to 10% of their annual wages withheld to purchase Corning common stock. The purchase price of the stock is 85% of the lower of the beginning-of-quarter or end-of-quarter market price. The Corning Stock Ownership Trust is utilized to fund employee purchases of common stock under the WESPP.

16. EMPLOYEE STOCK OWNERSHIP PLAN

Corning has established the Employee Stock Ownership Plan (ESOP) within its existing employee investment plans. At inception of the plan, Corning borrowed $50 million and loaned the proceeds to the ESOP. The ESOP used the proceeds to purchase 4 million treasury shares. In 1998, Corning paid the remaining balance of the ESOP loan. Corning's receivable from the ESOP was $2.9 million at the end of 1997 and is classified as unearned compensation in common shareholders' equity.

Contributions to the ESOP were $3.0 million in 1998, $7.0 million in 1997 and $6.7 million in 1996. Dividends on unallocated shares reduced contribution requirements by $0.2 million in 1997 and $0.5 million in 1996. There were no dividends on unallocated shares in 1998. Interest costs amounted to $0.1 million in 1998, $0.8 million in 1997 and $1.2 million in 1996. Shares held by the ESOP are included in weighted-average shares outstanding for earnings per share calculations. The trustee of the ESOP sold the shares of Quest Diagnostics and Covance that it received from the Distributions. The proceeds from the sale of these shares were used to purchase shares of Corning common stock.

17. COMMITMENTS, CONTINGENCIES, GUARANTEES AND HEDGING ACTIVITIES

Minimum rental commitments under leases outstanding at December 31, 1998 are:

1999	2000	2001	2002	2003	2004-2019
$43.2	$37.5	$29.8	$23.5	$20.2	$117.2

In January 1998, Corning completed a sale leaseback transaction related to certain equipment assets and resulted in gross proceeds of approximately $95 million. Approximately $80 million of the proceeds were invested with the counterparty to the lease. There was no material change to total long-term assets as a result of this transaction. Payments pursuant to the operating lease are included above.

At December 31, 1998, future minimum lease payments to be received under a noncancelable sublease to Quest Diagnostics totaled $67.4 million. Quest Diagnostics, in turn, has a noncancelable sublease covering approximately $44.3 million of the minimum lease payments due to Corning. Corning has agreed to indemnify Quest Diagnostics should Quest Diagnostics' subleasee default on the minimum lease payments. Additionally, Corning continues to guarantee certain obligations of Quest Diagnostics totaling $14.8 million.

Corning operates and conducts business in many foreign countries. As a result, there is exposure to potentially adverse movement in foreign currency rate changes. Corning enters into foreign exchange forward contracts with durations generally less than 12 months to reduce its exposure to exchange rate risk on foreign source income and purchases. The objective of these contracts is to neutralize the impact of foreign currency exchange rate movements on Corning's operating results.

The forward contracts require Corning to exchange currencies at rates agreed upon at the inception of the contract. The hedge contracts reduce the exposure to fluctuations in exchange rate movements because the gains and losses associated with foreign currency balances and transactions are generally offset with the gains and losses of the hedge contracts. Because the impact of movements in foreign exchange rates on forward contracts offsets the related impact on the underlying items being hedged, these financial instruments help alleviate the risk that might otherwise result from change in currency exchange rate fluctuations.

At December 31, 1998, Corning had foreign currency contracts to purchase approximately $145.5 million U.S. dollars with a fair value of $16.0 million. Of this amount, $11.4 million is included in other current liabilities at December 31, 1998. These contracts are held by Corning and its subsidiaries and will mature at varying dates in 1999.

In December 1998, one of Corning's subsidiaries entered into financing agreements which provide for the sale of certain future yen based revenues, beginning in February 1999 and expiring in December 2001. These contracts require the counterparty to advance U.S. dollars in amounts up to $10.1 million each month and Corning to repay the notes only to the extent of future yen denominated revenues. The obligations under these contracts are not cancelable by either party. Borrowings under the agreements bear interest at a premium to the Eurodollar rate. Transaction gains or losses related to these contracts are deferred and recognized as an adjustment to the revenue securing the note repayments. Borrowings are recorded on the balance sheet only to the extent they are outstanding. The cumulative borrowings anticipated between February 1999 and December 1999 approximate $100 million with cumulative repayments approximating 1.1 billion yen. At December 31, 1998, the contracted value of these contracts was approximately $3 million less than fair value.

The ability of certain subsidiaries and associated companies to transfer funds is limited by provisions of certain loan agreements and foreign government regulations. At December 31, 1998, the amount of equity subject to such restrictions for consolidated subsidiaries totaled $43.8 million. While this amount is legally restricted, it does not result in operational difficulties since Corning has generally permitted subsidiaries to retain a majority of equity to support their growth programs. At December 31, 1998, loans of equity affiliates guaranteed by Corning totaled $6.5 million.

Corning has agreed to indemnify Quest Diagnostics, on an after-tax basis, for the settlement of certain governmental claims pending at December 31, 1996. In addition, Corning, Quest Diagnostics and Covance have entered into tax indemnification and tax sharing agreements. Additional information on these indemnification agreements is presented in Note 18 of the Notes to Consolidated Financial Statements.

18. DISCONTINUED OPERATIONS

On April 1, 1998, Corning completed the recapitalization and sale of a controlling interest in its consumer housewares business to an affiliate of Borden, Inc. Corning received cash proceeds of $593 million and continues to retain an eight percent interest in the Corning Consumer Products Company. In addition, Corning could receive an additional payment of up to $15 million if certain financial targets are met by Corning Consumer Products Company for the three year period 1998-2000.

On December 31, 1996, Corning distributed all of the shares of Quest Diagnostics Incorporated (formerly Corning Clinical Laboratories Inc.) and Covance Inc. (formerly Corning Pharmaceutical Services Inc.) (the Distributions) (collectively, the Health Care Services Segment) to its shareholders on a pro rata basis. Prior to the Distributions, Corning received a ruling from the Internal Revenue Service that the Distributions were tax-free to Corning and its shareholders. As a result of the Distributions, Quest Diagnostics and Covance became independent, publicly traded companies.

Corning's shareholders' equity was reduced by $1.1 billion, which represented Corning's investment in equity and intercompany debt of Quest Diagnostics and Covance on the date of the Distributions. Prior to the Distributions, Quest Diagnostics and Covance borrowed $650 million from third-party lenders and repaid intercompany debt to Corning. Corning used the proceeds from the repayment of intercompany debt to repay approximately $375 million of short-term borrowings and $75 million of long-term debt.

Summarized results of Corning's discontinued operations are as follows:

	1998	1997	1996
Sales	$116.8	$574.8	$1,145.8
Income (loss) before income taxes	$ (0.9)	$ 49.0	$ 52.0
Income tax provision (benefit)	(0.3)	17.7	23.1
Income (loss) from operations, net of income taxes	(0.6)	31.3	28.9
Gain on sale of consumer housewares business, net of tax of $75.8 million	67.1		
Provision for loss on Distribution, including income tax benefit of $3.5 million			(176.5)
Minority interest in earnings of subsidiaries		(0.4)	(0.1)
Discontinued operations, net of income taxes	$ 66.5	$ 30.9	$ (147.7)

The results of operations from the consumer housewares business are for the period through March 31, 1998. Discontinued operations in 1996 also include sales of $515.0 million and income from operations of $9.2 million for the Health Care Services Segment. Results of the discontinued businesses include allocations of consolidated interest expense totaling $2.7 million, $13.0 million and $63.5 million in 1998, 1997 and 1996, respectively. The allocations were based on the ratio of net assets of discontinued operations to consolidated net assets.

The $176.5 million provision for loss on Distributions includes after-tax charges of $142.0 million recorded by Quest Diagnostics related to certain government investigations of billing practices of certain clinical laboratories.

Corning has agreed to indemnify Quest Diagnostics on an after-tax basis for the settlement of certain claims that were pending at December 31, 1996. Coincident with the Distributions, Corning recorded a reserve accrual of approximately $25 million which is equal to management's best estimate of amounts, which are probable of being paid by Corning to Quest Diagnostics to satisfy the remaining indemnified claims on an after-tax basis.

Although management believes that established reserves for indemnified claims are sufficient, it is possible that additional information may become available to Quest Diagnostics' management, which may cause the final resolution of these matters to exceed established reserves by an amount which could be material to Corning's results of operations and cash flow in the period in which such claims are settled. Corning does not believe that these issues will have a material adverse impact on Corning's overall financial condition.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Corning Incorporated is responsible for the preparation, presentation and integrity of the consolidated financial statements and other information included in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles and include certain amounts based on management's best estimates and judgments.

In meeting its responsibility for the reliability of these financial statements, Corning maintains comprehensive systems of internal accounting control. These systems are designed to provide reasonable assurance at reasonable cost that corporate assets are protected against loss or unauthorized use and that transactions and events are properly recorded. Such systems are reinforced by written policies, selection and training of competent financial personnel, appropriate division of responsibilities and a program of internal audits.

The consolidated financial statements have been audited by our independent accountants, PricewaterhouseCoopers LLP. Their responsibility is to express an independent, professional opinion with respect to the consolidated financial statements on the basis of an audit conducted in accordance with generally accepted auditing standards.

The Board of Directors, through its Audit Committee, is responsible for reviewing and monitoring Corning's financial reporting and accounting practices and recommending annually the appointment of the independent accountants. The Committee, comprised of non-management directors, meets periodically with management, the internal auditors and the independent accountants to review and assess the activities of each. Both the independent accountants and the internal auditors meet with the Committee, without management present, to review the results of their audits and their assessment of the adequacy of the systems of internal accounting control and the quality of financial reporting.

Roger G. Ackerman
Chairman and Chief Executive Officer

James B. Flaws
Senior Vice President, Treasurer and Chief Financial Officer

Katherine A. Asbeck
Vice President and Controller

PricewaterhouseCoopers LLP

To the Board of Directors and Shareholders of Corning Incorporated

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in shareholders' equity appearing on pages 42 through 45 present fairly, in all material respects, the financial position of Corning Incorporated and its subsidiaries at December 31, 1998 and 1997, and the results of their operations, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York, New York 10019

January 25, 1999, except for Note 4 and Note 11, which are as of February 16, 1999

(unaudited)
(In millions, except per share amounts)

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$ 803.9	$ 888.4	$ 918.3	$ 961.5	$3,572.1
Gross profit	280.1	325.5	356.4	368.1	1,330.1
Income from continuing operations before income taxes, minority interest and equity earnings	64.5	54.2	162.0	158.9	439.6
Taxes on income from continuing operations	(21.0)	(13.9)	(49.2)	(48.7)	(132.8)
Minority interest in earnings of subsidiaries	(5.5)	(12.8)	(20.3)	(22.3)	(60.9)
Dividends on convertible preferred securities of subsidiary	(3.4)	(3.5)	(3.4)	(3.4)	(13.7)
Equity in earnings of associated companies	27.5	32.7	15.3	19.8	95.3
Income from continuing operations	$ 62.1	$ 56.7	$ 104.4	$ 104.3	$ 327.5
Income (loss) from discontinued operations, net of income taxes (1)	(0.6)	67.1			66.5
Net income	$ 61.5	$ 123.8	$ 104.4	$ 104.3	$ 394.0
BASIC EARNINGS PER SHARE					
Continuing operations	$ 0.27	$ 0.24	$ 0.45	$ 0.45	$ 1.42
Discontinued operations (1)		0.30			0.29
Net income	$ 0.27	$ 0.54	$ 0.45	$ 0.45	$ 1.71
DILUTED EARNINGS PER SHARE					
Continuing operations	$ 0.27	$ 0.24	$ 0.44	$ 0.44	$ 1.39
Discontinued operations (1)	(0.01)	0.29			0.28
Net income	$ 0.26	$ 0.53	$ 0.44	$ 0.44	$ 1.67
Dividend declared	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.72
Price range					
High	$44 1/4	$43 1/2	$35 1/4	$ 45	–
Low	32 3/8	34	23 1/2	27 3/4	–

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$ 827.0	$ 914.6	$ 901.3	$ 911.4	$3,554.3
Gross profit	341.4	390.2	367.0	375.9	1,474.5
Income from continuing operations before income taxes, minority interest and equity earnings	143.5	189.3	150.1	146.3	629.2
Taxes on income from continuing operations	(49.0)	(64.2)	(48.0)	(48.3)	(209.5)
Minority interest in earnings of subsidiaries	(12.5)	(20.8)	(22.9)	(20.1)	(76.3)
Dividends on convertible preferred securities of subsidiary	(3.4)	(3.5)	(3.4)	(3.4)	(13.7)
Equity in earnings of associated companies	6.8	24.2	31.0	17.2	79.2
Income from continuing operations	$ 85.4	$ 125.0	$ 106.8	$ 91.7	$ 408.9
Income from discontinued operations, net of income taxes (1)	6.6	2.0	5.5	16.8	30.9
Net income	$ 92.0	$ 127.0	$ 112.3	$ 108.5	$ 439.8
BASIC EARNINGS PER SHARE					
Continuing operations	$ 0.37	$ 0.55	$ 0.47	$ 0.40	$ 1.79
Discontinued operations (1)	0.03	0.01	0.02	0.07	0.13
Net income	$ 0.40	$ 0.56	$ 0.49	$ 0.47	$ 1.92
DILUTED EARNINGS PER SHARE					
Continuing operations	$ 0.36	$ 0.52	$ 0.45	$ 0.39	$ 1.72
Discontinued operations (1)	0.03	0.01	0.02	0.07	0.13
Net income	$ 0.39	$ 0.53	$ 0.47	$ 0.46	$ 1.85
Dividend declared	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.72
Price range					
High	$ 46	$ 56	$ 65	$49 1/4	–
Low	34	43 1/2	41	35 3/4	–

(1) Discontinued operations are described in Note 18 of the Notes to Consolidated Financial Statements.

(In millions, except per share amounts and number of employees and common shareholders)	1998	1997	1996	1995	1994
BASIC EARNINGS PER SHARE					
Income (loss) from continuing operations	$ 1.42	$ 1.79	$ 1.42	$ (0.35)	$ 0.89
Income (loss) from discontinued operations, net of income taxes	0.29	0.13	(0.66)	0.12	0.43
Net income (loss)	$ 1.71	$ 1.92	$ 0.76	$ (0.23)	$ 1.32
DILUTED EARNINGS PER SHARE					
Continuing operations	$ 1.39	$ 1.72	$ 1.40	$ (0.35)	$ 0.88
Discontinued operations	0.28	0.13	(0.62)	0.12	0.42
Net income (loss)	$ 1.67	$ 1.85	$ 0.78	$ (0.23)	$ 1.30
Dividends declared	$ 0.72	$ 0.72	$ 0.72	$ 0.72	$ 0.69
Shares used in computing earnings per share					
Basic earnings per share	229.6	228.1	227.1	226.6	211.8
Diluted earnings per share	243.9	245.4	239.5	226.6	214.2
OPERATIONS					
Net sales	$3,484.0	$3,516.8	$3,024.0	$2,644.7	$2,367.5
Non-operating gains	39.7				
Research, development and engineering expenses	293.9	250.3	189.2	172.2	169.7
Provision for restructuring	84.6			26.5	
Taxes on income from continuing operations	132.8	209.5	151.4	107.3	86.6
Minority interest in earnings of subsidiaries	60.9	76.3	52.5	64.3	48.7
Dividends on convertible preferred securities of subsidiary	13.7	13.7	13.7	13.7	6.1
Equity in earnings (losses) of associated companies:					
Other than Dow Corning Corporation	95.3	79.2	85.1	66.6	48.5
Dow Corning Corporation				(348.0)	(2.8)
Income (loss) from continuing operations	$ 327.5	$ 408.9	$ 323.3	$ (77.3)	$ 190.6
Income (loss) from discontinued operations, net of income taxes	66.5	30.9	(147.7)	26.5	90.7
NET INCOME (LOSS)	$ 394.0	$ 439.8	$ 175.6	$ (50.8)	$ 281.3
FINANCIAL POSITION					
ASSETS					
Working capital	$ 235.6	$ 241.4	$ 445.2	$ 276.5	$ 281.3
Investments:					
Other than Dow Corning Corporation	366.2	310.0	337.2	364.9	339.5
Dow Corning Corporation					341.8
Plant and equipment, net	2,684.9	2,267.9	1,808.6	1,438.7	1,334.9
Goodwill and other intangible assets, net	309.7	294.2	259.9	258.1	255.7
Net assets of discontinued operations		357.6	364.0	2,056.0	1,972.4
Total assets	4,981.9	4,691.9	4,183.4	5,334.5	5,365.5
CAPITALIZATION					
Loans payable beyond one year	$ 998.3	$1,125.8	$1,195.1	$1,326.0	$1,330.5
Other liabilities	674.1	627.5	597.8	587.4	564.5
Minority interest in subsidiary companies	346.1	349.3	309.9	269.2	244.5
Convertible preferred securities of subsidiary	365.2	365.3	365.1	364.7	364.4
Convertible preferred stock	17.9	19.8	22.2	23.9	24.9
Common shareholders' equity	1,505.6	1,246.5	961.1	2,103.0	2,263.0
Total capitalization	$3,907.2	$3,734.2	$3,451.2	$4,674.2	$4,791.8
SELECTED DATA					
Common dividends declared	$ 166.8	$ 166.2	$ 165.3	$ 165.2	$ 150.1
Preferred dividends declared	$ 1.5	$ 1.6	$ 1.9	$ 2.0	$ 2.1
Additions to plant and equipment	$ 713.6	$ 745.6	$ 560.2	$ 337.1	$ 248.8
Depreciation and amortization	$ 298.0	$ 285.9	$ 252.3	$ 221.1	$ 210.1
Number of employees (1)	15,400	16,100	15,300	12,800	17,000
Number of common shareholders	17,550	17,900	18,000	18,800	21,600

(1) Amounts do not include employees of discontinued operations.

DIRECTORS

ROGER G. ACKERMAN
Chairman and Chief Executive Officer
Corning Incorporated

ROBERT BARKER
Professor and Provost Emeritus
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Xerox Corporation, Palo Alto, CA

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Corning Incorporated

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Gund Investment Corporation
Princeton, NJ

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Credit Suisse First Boston Corporation
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Chairman Emeritus
Corning Incorporated

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President, Corning Communications
Corning Incorporated

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and Chief Executive Officer
Unicom Corporation, Chicago, IL

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New York, NY

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The Quaker Oats Company, Chicago, IL

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Boston, MA

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New York, NY

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Citibank, N.A., New York, NY

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Chairman Emeritus
Kirby Corporation, New York, NY

*Effective March 1, 1999

CORPORATE OFFICERS

ROGER G. ACKERMAN
Chairman and Chief Executive Officer

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Vice Chairman

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President, Corning Technologies

JOHN W. LOOSE
President, Corning Communications

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Senior Vice President, Science & Technology and Chief Technical Officer

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Senior Vice President and General Counsel

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Senior Vice President

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Senior Vice President, Manufacturing Effectiveness and Corporate Quality

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Vice President and Director, Legal Department

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Vice President and Director, Government Affairs

PAMELA C. SCHNEIDER
Vice President, Human Resources and Diversity Officer

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Vice President, Manufacturing Technology and Engineering

GROUP OFFICERS

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ADRIANE M. BROWN
Vice President and General Manager
Environmental Products

ROBERT B. BROWN
Vice President, Manufacturing and Engineering, Opto-Electronics

JAMES R. COOKE
Vice President, Opto-Electronics New Business

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Président and Directeur Général, Corning S.A., President, Corning Europe, and General Manager, Optical Products

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Executive Vice President
Environmental and Corporate Marketing

ALAN T. EUSDEN
Vice President and General Manager
Telecommunications Products

GERALD J. FINE
Vice President and General Manager
Photonic Technologies

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President, Corning Japan K.K.

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President and Chief Executive Officer
Siecor Corporation

SANFORD D. LYONS
Executive Vice President, Operations
Siecor Corporation

DAVID F. HINCHMAN
Chairman of the Board and Chief Executive Officer
U.S. Precision Lens Inc.

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Vice President, Corning International Corporation
President, Corning China

E. MARIE MCKEE
Chairman, Steuben
Senior Vice President, Corning Incorporated

RANDALL D. PRICE
Executive Vice President
Advanced Materials

CLIFTON L. SMITH
President and Chief Executive Officer
Corning Asahi Video Products Company

DAVID E. SZKUTAK
President and Chief Operating Officer
U.S. Precision Lens

PETER F. VOLANAKIS
Executive Vice President
Display Products and Science Products

WENDELL P. WEEKS
Executive Vice President
Opto-Electronics

PRINCIPAL SUBSIDIARIES

CORNING OCA CORPORATION
Marlborough, MA

CORNING ASAHI VIDEO PRODUCTS COMPANY
Corning, NY
(49% owned by Asahi Glass America Inc.)

CORNING S.A.
Avon, France

CORNING GMBH
Wiesbaden, Germany

CORNING JAPAN K.K.
Tokyo, Japan

OPTICAL FIBERS
Deeside, U.K.

QUANTERRA INCORPORATED
Englewood, CO

SIECOR CORPORATION
Hickory, NC
(50% owned by Siemens AG)

U.S. PRECISION LENS INC.
Cincinnati, OH

PRINCIPAL ASSOCIATED COMPANIES
[investors shown in *italics*] (percent owned in parentheses)

AMERICAN VIDEO GLASS COMPANY
Pittsburgh, PA
[*Partnership between Asahi Glass America Inc., Corning Incorporated and Sony Corporation*]

CORMETECH INC.
Durham, NC
[*Mitsubishi Heavy Industries Ltd.; Mitsubishi Chemical Company Ltd.*] (50%)

DOW CORNING CORPORATION
Midland, MI
[*The Dow Chemical Company*] (50%)

EUROKERA, S.N.C.
Château Thierry, France
[*St. Gobain Vitrage S.A.*] (50%)

EUROKERA NORTH AMERICA, INC.
Greenville, SC
[*St. Gobain Vitrage S.A.*] (50%)

OPTICAL WAVEGUIDES AUSTRALIA PTY. LIMITED
Melbourne, Australia
[*BICC plc*] (50%)

PITTSBURGH CORNING CORPORATION
Pittsburgh, PA
[*PPG Industries Inc.*] (50%)

PITTSBURGH CORNING EUROPE N.V.
Brussels, Belgium
[*PPG Industries Inc.*] (50%)

SAMARA OPTICAL CABLE COMPANY, LTD.
Samara, Russia
[*Samara Cable Company*] (51%)

SAMCOR GLASS LIMITED
New Delhi, India
[*Samtel Group; Samsung-Corning Company Ltd.*] (45%)

SAMSUNG-CORNING COMPANY LTD.
Seoul, South Korea
[*Samsung Group*] (50%)

SAMSUNG-CORNING PRECISION GLASS COMPANY, LTD.
Seoul, South Korea
[*Bokwang Company, Ltd., affiliated with the Samsung Group*] (50%)

SIECOR GMBH
Munich, Germany
[*Siemens AG*] (50%)

SIECOR GMBH & CO. KG
Neustadt, Germany
[*Siemens AG*] (50%)

ANNUAL MEETING
The annual meeting of shareholders will be held on Thursday, April 29, 1999, in Corning, NY. A formal notice of the meeting together with a proxy statement will be mailed to shareholders on or about March 18, 1999. The proxy statement can also be accessed electronically through the Corning home page on the internet at http://www.corning.com. A summary report of the proceedings at the annual meeting will be available without charge upon written request to Mr. A. John Peck Jr., vice president and secretary, Corning Incorporated, HQ-E2-10, Corning, NY 14831.

ADDITIONAL INFORMATION
A copy of Corning's 1998 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available upon written request to Mr. A. John Peck Jr., vice president and secretary, Corning Incorporated, HQ-E2-10, Corning, NY 14831. The Annual Report on Form 10-K can also be accessed electronically through the Corning home page on the Internet at http://www.corning.com.

INVESTOR INFORMATION
Investment analysts who need additional information may contact Ms. Katherine M. Dietz, director of investor relations, Corning Incorporated, HQ-E2-25, Corning, NY 14831; Telephone (607) 974-9000.

COMMON STOCK
Corning Incorporated common stock is listed on the New York Stock Exchange and the Zurich Stock Exchange. In addition, it is traded on the Boston, Midwest, Pacific and Philadelphia stock exchanges. Common stock options are traded on the Chicago Board Options Exchange. The abbreviated ticker symbol for Corning Incorporated is "GLW."

CONVERTIBLE MONTHLY INCOME PREFERRED SECURITIES
Corning Delaware L.P. convertible monthly income preferred securities (MIPS) are listed on the New York Stock Exchange. The abbreviated ticker symbol for the Corning MIPS is "GLW pfM."

DIVIDEND REINVESTMENT
Corning's Dividend Reinvestment Plan allows shareholders to reinvest dividends in Corning Incorporated common stock automatically, regularly and conveniently. In addition, participating shareholders may supplement the amount invested with voluntary cash investments. Plan participation is voluntary and shareholders may join or withdraw at any time.

Full details of the Plan are available by writing to the Secretary of the company or to Harris Trust and Savings Bank at the address listed below. Be certain to include a reference to Corning Incorporated.

TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT
Harris Trust and Savings Bank
Shareholder Services Division
P.O. Box 755
Chicago, IL 60690-0755
Telephone: (800) 255-0461
www.harrisbank.com/corporations/shareholders

For people with hearing impairments, Harris Bank has a Telecommunication Device for the Deaf (TDD) telephone. The listing is Harris Bank, Hearing Impaired Telephone, TDD (312) 461-5633 or TDD (312) 461-5637.

CHANGE OF ADDRESS
Report change of address to Harris Trust and Savings Bank at the above address.

INDEPENDENT ACCOUNTANTS
PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York, NY 10019

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
The statements in this Annual Report which are not historical facts or information are forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause the outcome to be materially different. Such risks and uncertainties include, but are not limited to, global economic conditions, currency fluctuations, product demand and industry capacity, competitive products and pricing, manufacturing efficiencies, cost reductions, availability and costs of critical materials, new product development and commercialization, manufacturing capacity, facility expansions and new plant start-up costs, the effect of regulatory and legal developments, capital resource and cash flow activities, capital spending, equity company activities, interest costs, acquisition and divestiture activity, the rate of technology change, ability to enforce patents and other risks detailed in Corning's Securities and Exchange Commission filings.

CORPORATE VALUES

Corning's values provide an unchanging moral and ethical compass that guides the actions of everyone in the company. The corporate values: Quality, Integrity, Performance, Leadership, Technology, Independence, the Individual.

OPERATING ENVIRONMENT

Corning employees work in an environment founded on the corporate values and designed to promote personal, professional and business growth. The eight dimensions of the operating environment: Customer Focused, Results Oriented, Forward Looking, Entrepreneurial, Rigorous, Open, Engaging, Enabling.

TOTAL QUALITY

Total Quality is the guiding principle of Corning's business life. Total Quality performance means understanding who the customer is and what the requirements are, and meeting those requirements better than anyone else, without error, on time, every time.

ENVIRONMENTAL POLICY

Corning Incorporated is committed to protecting the environment wherever we operate in the world. We achieve this by complying with and striving to exceed all applicable laws, regulations and company standards; maintaining an environmental management system that assures policy implementations; recycling whenever possible and working to create innovative recycling opportunities; and promoting and increasing environmental awareness within our plants and facilities.

CORNING FOUNDATION

The Corning Foundation was established to administer the charitable contributions of Corning Incorporated. Grants to communities in which Corning operates account for some 50% of Foundation assistance. Typical recipients are performing arts organizations, school systems, libraries, hospitals and programs to promote technical education for women and other underrepresented groups.

Employee giving is encouraged by the Foundation through its Matching Gifts Program. A Foundation Report of Activities is available to shareholders upon written request to Mr. A. John Peck Jr., vice president and secretary, Corning Incorporated, HQ-E2-10, Corning, NY, 14831.

TRADEMARKS

The following trademarks of Corning Incorporated and its subsidiaries appear in this report:

DCM
Duraclad
EuroKera
FiberGain
Fotoform
HPFS
Infinicor
LaserLife
LEAF
Macor
MicroPlasma
MultiClad
Pyroceram
Shorties
Titan
Vycor

Printed in USA

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